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Apr. 1981
Apr. 1982-Apr. 1983

**Canadian Foreign Policy
Texts**

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- C12

Canada

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Publications

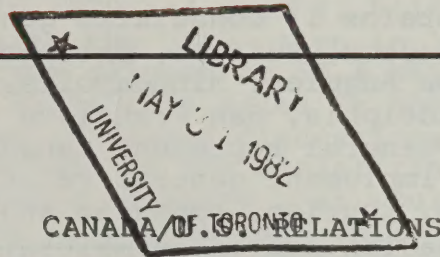
Canadian Foreign Policy

III

TEXTS

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April 1982



The Magnitude and Complexity of the Relationship

No other two countries in the world have so complex and extensive a relationship as Canada and the United States. They are each other's largest supplier and customer. Canada and the USA cooperate in the defence of the North American continent and through NATO, Western Europe as well. They share and manage an environment along an 8,891 kilometre border. They are linked by countless personal, family, academic, cultural, professional, business and trade union ties. The two countries are each other's largest source and destination of tourists, with over 73 million border crossings in 1980.

Management of the Relationship

Although most contacts between Americans and Canadians do not involve governments, management at that level is essential to the harmony of the relationship. The embassies and diplomatic services of the two countries are the principal channels of communication on policy matters. Bilateral agreements, arrangements and understandings cover a multitude of subjects. Crossborder regional affinities are also strong between Canadian provinces and American states within their areas of jurisdiction. The 1981 visits to Canada of President Reagan in March and July and of Prime Minister Trudeau to Washington in July and to Grand Rapids in September provided opportunities to establish personal contact between the two heads of government and resulted in a renewed commitment to careful management of the Canada/USA relationship.



External Affairs
Canada

Domestic Information
Programs Division

Affaires extérieures
Canada

Direction des programmes
d'information au Canada

Canadian Representation in the USA

In addition to the embassy in Washington, Canada maintains 14 consulates-general in the USA (Atlanta, Boston, Buffalo, Chicago, Cleveland, Dallas, Detroit, Los Angeles, Minneapolis, New Orleans, New York, Philadelphia, San Francisco and Seattle). The consulates-general represent Canada in their territories and implement general relations, trade, immigration, tourism, consular and cultural programs. Several Canadian provinces maintain non-diplomatic offices in the USA.

Trade

In 1980 the value of Canadian exports to the USA was over U.S. \$42 billion, about two-thirds of total Canadian exports. Canadian imports from the USA were valued at about U.S. \$41 billion or about 16 per cent of all U.S. exports. The USA sells almost as much to Canada as it does to the entire European Community and almost as much to Canada as to its next largest single trading partner, Japan. Seventy per cent of all Canadian imports come from the USA. Given the scale of this economic interdependence, economic policies in one country can have a significant effect on the other.

Implementation of the results of the Multilateral Trade Negotiations will substantially benefit bilateral trade. It is estimated that over 90 per cent of Canadian exports will enter the USA at tariffs of 5 per cent or less and almost 80 per cent duty-free. The agreements reached on such non-tariff measures as subsidies, countervailing duties, and product standards should serve to make market access between Canada and the USA more secure. Similarly, the strengthened General Agreement on Tariffs and Trade (GATT) dispute settlement procedures should provide a means to resist protectionist pressures, as should the efforts to reinforce and extend the multilateral trading system that will be mounted in connection with the ministerial level meeting of the GATT Contracting Parties later this year. Nonetheless, the proliferation of U.S. federal and state "Buy America" legislation and programs set aside for businesses have been a source of concern to Canada for their increasingly restrictive effect on access to the U.S. market.

Canada and the USA enjoy a free trade arrangement in the automotive sector under the Auto Pact signed in 1965. However, this sector poses problems for Canada. Canada experienced a deficit of over Cdn \$3 billion in 1979 and over \$2 billion in 1980 in automotive trade with the USA. Also in 1980, total two-way automotive trade slipped by \$3.4 billion, reflecting a drop in automotive sales in both countries. Canada has initiated discussions with industry and consultations at the ministerial level with the USA to determine measures that would allow Canadian manufacturers to participate fully and effectively in the new generation of motor vehicle production. These meetings also provide an opportunity for both countries to explore possible measures aimed at improving the performance of the North American industry in the global context.

Investment

Canada and the USA are the foremost destination for each other's foreign investment. The USA has about Cdn \$70 billion in direct and portfolio investment in Canada, and Canada has an estimated Cdn \$13 billion, for a total of Cdn \$96 billion. Some 80 per cent of all foreign direct investment in Canada is of U.S. origin, controlling about 24 per cent of Canadian non-financial industries. Canadians account for 15 per cent of all foreign investment in the USA, controlling less than .5 per cent of U.S. non-financial industries. By sector the comparative Canadian and U.S. situations are as follows:

Canada

(Source: Statistics Canada, data to end of 1978)

	<u>% of Industry Foreign-Controlled</u>	<u>% of Industry U.S.-Controlled</u>
Mining	39.9	32.0
Oil and gas	65.1	47.1
Total Manufacturing	47.8	35.3
Rubber industry	93.0	71.6
Transportation equipment	74.7	69.2
Chemicals industry	67.8	52.9
Electrical equipment	66.2	55.9
Heavy machinery	60.9	50.4
Textiles	57.6	47.2
Metal fabricating	39.5	31.6
Pulp and paper	39.5	31.4

USA

(Source: U.S. Department of Commerce, data to end of 1974)

	<u>% of Industry Foreign-Controlled</u>
Agriculture, forestry and fish	0.5
Mining	5.0
Oil and gas	18.0
Manufacturing	3.0
Construction	0.5
Transportation, communications and public utilities	1.0
Wholesale trade	3.0
Retail trade	1.0

The effects of the high degree of foreign participation in the Canadian economy have long been the subject of national debate. A result of this debate was the establishment of the Foreign Investment Review Agency (FIRA) in 1974. The U.S. private sector and, more recently, the U.S. government have expressed concern about certain aspects of its operations. Bilateral discussions will soon be taking place within the context of the GATT. Canada has been, and remains open to, discussion and explanation of its policies. However, the reasons behind the Canadian approach are fundamental - a level of foreign ownership and control in its economy which is unique among industrialized countries and a resulting need to ensure that foreign investment brings significant benefit to the Canadian economy.

Energy

Energy issues continue to be important nationally and internationally and are prominent in Canada/USA relations. While both countries are pursuing their respective domestic programs, there is a continuous process of consultation and cooperation in areas of mutual benefit.

The Canadian government's basic energy policy is set out in its National Energy Program (NEP) of Ottawa 1980. This comprehensive program is designed to restructure Canada's energy system to balance domestic oil supplies with domestic demand by 1990, achieve an equitable sharing of energy benefits and burdens among Canadians, lead to a higher level of Canadian ownership and control of the energy sector, expand the role of the public sector in oil and gas, and ensure greater industrial benefits from energy development. It provides a blueprint to end Canada's dependence on imported oil and to correct a system which has worked against increased Canadian participation in the energy sector and in favour of the largest, mostly foreign-owned petroleum companies. In 1979, for example, 72 per cent of the revenues of the oil and gas industry went to foreign-owned companies at a time when the industry is claiming an ever rising share of the nation's wealth. While this program will necessarily affect multinationals operating in Canada, including U.S. firms, it continues to provide foreign investors with terms that compare favourably with those available in most other producing countries. This is all the more so since the Alberta/federal agreement on energy pricing and taxation provides for substantially higher prices than was originally foreseen under the NEP and, therefore, also provides strong incentives to the industry for exploration and development.

Canada, like the USA, must import oil to meet its domestic needs. At the same time, Canada produces significant surpluses in other forms of energy including natural gas, heavy oil and electricity, which are exported to the USA. These exports are not large compared to total U.S. consumption, but earned Canada about \$8.3 billion in 1980 while serving as important and reliable sources of supply in certain U.S. markets.

Other areas of bilateral cooperation abound. The most significant example is the 1977 Northern Gas Pipeline Agreement. Construction of the southwestern segment is complete and construction of the southeastern segment of this project is now well under way. Both segments will be used to export some of the current Alberta natural gas surplus until the northern segments are completed in 1985 and Alaska gas begins to be transported through the pipeline to U.S. markets.

In 1979, the two countries published a joint study, Electricity Exchanges, which identified opportunities for increased trade. They also signed an understanding on tar sands and heavy oil research and development in which the provinces of Alberta and Saskatchewan are full participants. Since 1975, oil has been swapped across the border to maintain some supplies to certain U.S. refineries while saving on oil transportation costs. The two countries are now looking into the possibilities of further cooperation in base-load electricity exports from Canada and co-ordinated responses to energy-related emergencies.

Canada also cooperates closely with the USA and other nations on international energy questions and related financial issues in multilateral organizations, notably the International Energy Agency.

Environment

Both countries assign high priority to the close monitoring and resolution of transboundary environmental problems, which are of great public concern on both sides of the border. Cooperation on environmental matters predates even the 1909 signing of the Boundary Waters Treaty, which forms the basis of water-resource management and environmental relations.

There are frequent bilateral consultations and negotiations on a wide variety of projects relating to the transboundary environment. An active and valuable role is played by the International Joint Commission (IJC), established by the Boundary Waters Treaty. The IJC has certain regulatory functions and at government request, undertakes special studies and makes recommendations.

An important recent development is the commitment of both governments, reflected in a July 26, 1979 joint statement and an August 5, 1980 memorandum of intent, to develop a cooperative agreement to reduce

transboundary air-borne pollutants. This problem, and particularly the phenomenon known as acid rain, has been identified as a major threat to large areas in both countries. Negotiations to conclude a trans-boundary air pollution agreement began in June 1981 and are continuing.

Canada and the USA are committed to cooperative efforts to clean up the Great Lakes under the 1972 and 1978 Great Lakes Water Quality Agreements. The problem of hazardous and toxic waste disposal, particularly in the Great Lakes region, has recently become a matter of increasing concern to both governments. Several bilateral meetings have been held to discuss the issue of hazardous and toxic waste disposal in the Niagara River area.

Another major issue is the Garrison Diversion project in North Dakota, which if completed would pollute the Hudson Bay watershed in Canada. Other subjects of continuing interest are tanker traffic on the west coast, and the tanker traffic that would be associated with the proposed oil refinery at Eastport, Maine; and the proposed U.S. flooding of the Skagit Valley in British Columbia.

Defence Relations

Very close cooperation between Canada and the USA during the Second World War established a lasting pattern of joint defence planning. The Permanent Joint Board on Defence, established by the Ogdensburg Agreement of 1940, ensures continuous consultation at the policy planning level on bilateral defence matters. Canada and the USA are founding members of NATO. The North American Aerospace Defence Command (NORAD) Agreement between Canada and the USA has, since 1958, provided for joint command of the air defence of North America. The agreement was renewed for five years on March 11, 1981, during the visit of President Reagan to Ottawa. Bilateral discussions continue on the modernization of North American aerospace defences.

The Canada/USA Defence Development and Defence Production Sharing Arrangements (DD/DPSA) are designed to ensure the maintenance of a long-term balance in reciprocal procurement of defence items and to utilize the industrial, scientific and technological resources of both countries in the interests of

continental defence. During his visit to Ottawa in March, President Reagan reaffirmed with Prime Minister Trudeau the importance the two countries attach to the Arrangements as the basis for cooperation in the defence economic field.

Fisheries and Maritime Boundaries

In January 1977, Canada extended its fisheries jurisdiction to 200 miles; the U.S. 200-mile zone came into force in March. The two claims overlapped. It then became necessary to establish a new bilateral framework for fisheries management and cooperation as well as to delimit the maritime boundaries off the east coast, in the Strait of Juan de Fuca and Dixon Entrance in the Pacific, and in the Beaufort Sea in the Arctic.

On August 1, 1977 the two governments appointed special negotiators to recommend a resolution of these issues. After 18 months of negotiations, agreement was reached on fisheries management and maritime boundary settlement procedures for the east coast. Treaties were signed in Washington, D.C. on March 29, 1979. Negotiations on the other three maritime boundaries have been in abeyance pending final determination of the east coast boundary.

One of the treaties signed in March 1979 provided for the submission of the east coast boundary dispute to adjudication by the International Court of Justice. It was directly linked to the fisheries treaty, which provided for cooperative management and for entitlements to east coast fish stocks. For two years, the U.S. Senate did not act on the treaties. During that period this became the most serious bilateral issue Canada has with the USA. It was exacerbated by the U.S. overfishing of stocks covered by the fisheries treaty, contrary to the obligations which arose on signature of the treaties.

In March 1981, the U.S. Administration abandoned the fisheries treaty, separating it from the maritime boundary treaty and withdrawing it from the Senate on grounds that it would not be given consent for ratification. The Canadian government was profoundly disappointed at the U.S. proposal to ratify the severed maritime boundary treaty alone. Nonetheless, on November 20, the two countries exchanged

instruments of ratification to bring the maritime boundary treaty into force, thereby referring the boundary case to the World Court. Even though the matter is sub judice, U.S. overfishing on Georges Bank has continued to the point where the scallop stocks in particular are in a critical state. Several rounds of bilateral discussions have taken place but have so far proved inconclusive.

In west coast fisheries, discussions continue towards a comprehensive salmon interception agreement. In July 1981, Canada and the USA ratified a treaty providing for reciprocal fishing of albacore tuna off the Pacific coast and for reciprocal landing rights at designated ports.

Taxation

A Canada/U.S. Double Taxation Convention was signed in 1980 but has not yet been ratified by the U.S. Senate. One issue delaying ratification concerns the treatment of real estate capital gains. Further bilateral negotiations towards amendments which would bring the Convention into closer alignment with U.S. domestic law will be held early in 1982. If agreement is reached on these amendments, the ratification process could probably proceed fairly quickly.

Extraterritoriality

A frequent irritant between Canada and the USA is the extraterritorial application of U.S. jurisdiction. Recent or current examples include: the Federal Reserve Board's involvement in certain Canadian bank activities with other Canadian financial institutions; the Inter-State Commerce Commission's efforts to deregulate U.S. railways in a way that could adversely affect Canadian railways in Canada; and attempts to have the Federal Maritime Commission regulate Canadian shipping between Canada and third countries when U.S. cargo or ports are involved.

Although an out-of-court settlement was reached last year, the antitrust litigation in U.S. courts launched by U.S. private parties against Canadian and other uranium producers has raised serious concerns for Canada. The Canadian government maintains that actions of Canadian companies, taken outside the USA, which were required by Canadian law and taken pursuant to Canadian policy, should not be called into

question by U.S. courts. Legislation (Bill C-41) has been introduced in Parliament which would protect Canadian citizens and corporations from extraterritorial rulings by foreign tribunals.

Communications

In 1976 a section of the Canadian Income Tax Act (Section 19.1) was amended to ensure the viability of the Canadian broadcasting industry by encouraging greater use of Canadian television outlets by Canadian advertising directed to Canadian markets. This action was opposed by the owners of a number of U.S. television stations situated near the border since it reduced their advertising revenues from Canadian sources.

In August 1978, a group of United States broadcasters filed a complaint with the office of the United States Trade Representative (USTR) imputing injury to United States commerce. On July 31, 1980, President Carter agreed with the USTR recommendation which found broadly in favour of the broadcasters' complaint. As a result of this decision the Administration has proposed to the Congress legislation which would "mirror" Section 19.1. Congress did not then act on this proposal, but it has been resubmitted by the Reagan Administration. Section 19.1 remains an important feature of Canadian policy.

CANADA/USA ECONOMIC INDICATORS

GNP

	<u>Canada</u> (Cdn current \$ billions)	<u>USA</u> (U.S. current \$ billions)
1976	191.0	1718.0
1977	208.9	1918.0
1978	230.4	2156.0
1979	262.0	2413.9
1980	289.9	2626.1

TRADE

	<u>TOTAL</u>		<u>WITH USA</u>	
	(Statistics Canada on customs basis; in \$ millions Cdn)		(CDA/USA reconciled figures; in \$ billions U.S.)	
	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
	(incl re-exports)			
1978	53,182.8	53,107.7	33.1	30.3
1979	65,641.3	62,870.7	38.5	37.9
1980	75,963.9	69,127.7	42.0	40.7

(% Change)

	<u>TOTAL</u> (customs basis)		<u>WITH USA</u> (customs basis)	
	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
1978	19.2	18.4	20.1	18.7
1979	23.4	25.5	19.2	28.6
1980	15.7	10.0	7.9	6.4

DISTRIBUTION OF EXPORTS (% - 1980) (customs basis)

	<u>Canada</u>	<u>USA</u>
Canada	-	16
USA	63	-
Japan	6	9
EEC	13	24

DISTRIBUTION OF IMPORTS (% - 1980) (customs basis)

	<u>Canada</u>	<u>USA</u>
Canada	-	17
USA	70	-
Japan	4	13
EEC	8	15

1980 CURRENT ACCOUNT - USA

	<u>\$ Millions</u>
Merchandise Trade Balance	727
Services Transactions:	
Travel	- 799
Interest and Dividends	- 4592
Freight and Shipping	- 369
Other Service Transactions	- 3981
Balance on Service Transactions	- 9741
Balance on Goods and Services	- 9014
Net Transfers	139
 TOTAL CURRENT ACCOUNT BALANCE	 <u>- 8875</u>

PRICES & COSTS (% Change)

	<u>CPI-CDA</u> (% change)			<u>CPI-USA (yr to yr)</u> (% change)		
	<u>Total</u>	<u>Food</u>	<u>Non-Food</u>	<u>Total</u>	<u>Food</u>	<u>Non-Food</u>
1977	8.0	8.3	7.9	6.5	6.3	6.5
1978	8.9	15.5	6.4	7.7	10.0	7.2
1979	9.1	13.2	7.9	11.3	10.9	11.4
1980	10.2	10.7	10.0	12.4	10.2	12.9
1981	12.5	11.4	12.8	8.9	4.3	9.9

EMPLOYMENT

	<u>Unemployment Rate/CDA</u>	<u>Unemployment Rate/USA</u>
1976	7.1	7.7
1977	8.1	7.0
1978	8.4	6.0
1979	7.5	5.8
1980	7.5	7.1
1981	7.6	n/a

CDN DOLLAR IN US CENTS

1977	94.10
1978	87.72
1979	85.38
1980	85.54
1981	83.42

FOREIGN INVESTMENT (Latest Statistics Canada Estimates)

U.S. Direct Investment in Cda	\$38.3 billion (end of 1978 cumulative)
U.S. Portfolio Investment in Cda	\$31.5 billion (end of 1978 cumulative)
Canadian Direct Investment in USA	\$ 8.9 billion (end of 1978 cumulative)
Canadian Portfolio Investment in USA	\$4.03 billion (end of 1977 cumulative)

BORDER CROSSINGS (millions)

	<u>Canada to USA</u>	<u>USA to Canada</u>
1975	32.9	34.5
1976	35.9	32.2
1977	37.9	31.8
1978	37.3	31.6
1979	34.4	31.2
1980	34.7	38.5

POPULATION (millions)

	<u>Canada</u>	<u>USA</u>
1981	24.1	230.5

U.S. GENERAL RELATIONS DIVISION

Canada

Canadian Foreign Policy

LIBRARY

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UNIVERSITY OF TORONTO

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April 1981

CANADA/U.S. RELATIONS

The Magnitude and Complexity of the Relationship

Probably no other two countries in the world have so complex and extensive a relationship as Canada and the United States. Two-way trade in 1980 was approximately Cdn \$94 billion and the two countries are each other's largest supplier and customer. Canada and the USA cooperate to ensure the security of the North American continent and through NATO, Western Europe as well. They share and manage an environment along a 5,000 mile border. There are countless personal, family, academic, cultural, professional, business and trade union ties. The two countries are each other's largest source and destination of tourists with over 30 million border crossings each way annually.

Although most contacts between Americans and Canadians do not involve government participation, management at government level is essential to the harmony of the relationship. The embassies and diplomatic services of the two countries are the principal channels of communication on policy matters. Bilateral agreements, arrangements and understandings have been reached on a vast array of subjects. Crossborder regional affinities are strong and there are many links between Canadian provinces and American states within their areas of jurisdiction. The recent visit to Canada of President Reagan provided a valuable opportunity to establish personal contact between the two heads of government and produced a renewed commitment to careful management of the Canada/USA relationship.

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Canadian Representation in the USA

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Trade and Investment

In 1980 the value of Canadian exports to the USA was over Cdn \$46 billion, that is, more than two-thirds of total Canadian exports. Canadian imports from the USA were over Cdn \$48 billion or about 20 per cent of all U.S. exports. The USA sells almost as much to Canada as to the entire European Community and about twice as much as to Japan, its next largest single trading partner. With two-way trade and economic relationship on this scale, commercial and financial policies in one country can have a disproportionate effect on the other.

Implementation of the Multilateral Trade Negotiations will have a significant and beneficial effect on bilateral trade relations. It is estimated that over 90% of Canadian exports will enter the USA at tariffs of 5% or less and almost 80% will be duty-free. The agreements reached on non-tariff measures such as subsidies, countervailing duties, and product standards should make market access between Canada and the USA more secure. The strengthened procedures for settlement of disputes in the General Agreement on Tariffs and Trade should provide a means to resist protectionist pressures. However, the proliferation of U.S. federal and state "Buy America" legislation and the percentage of government contracts set aside for small business have been a source of concern to Canada as they increasingly restrict our access to the U.S. market.

Canada and the USA enjoy free trade in automobiles under the Auto Pact signed in 1965. However, this sector currently presents particular problems for

Canada. In 1979 we had a deficit of over Cdn \$3 billion in automotive trade with the USA. Preliminary data for 1980 show an improvement of almost \$1 billion in the balance. At the same time, total two-way automotive trade slipped by \$3.4 billion, reflecting the drop in automotive sales in both countries. Last year, Canada initiated discussions with industry in the USA and ministerial consultations to determine appropriate measures that would allow Canadian manufacturers to participate fully and effectively in the new generation of motor vehicle production. President Reagan confirmed in Ottawa that his Administration is prepared to continue these consultations.

Canada and the USA are each other's foremost destination for foreign investment. The USA has over Cdn \$52 billion in direct and portfolio investment in Canada and Canada has an estimated Cdn \$9 billion in the USA.

Energy

Energy issues, important nationally and internationally, continue to figure prominently in Canada/USA relations. While both countries are pursuing their respective domestic programs, there is continuous consultation and cooperation in areas of mutual benefit.

The Canadian government's basic energy policy is spelled out in its National Energy Program of 1980. This comprehensive program is designed to restructure Canada's energy system to balance domestic oil supply and demand by 1990 and achieve an equitable sharing of energy benefits and burdens among Canadians. Its intention is to produce a high level of Canadian ownership and control of energy, expand public ownership in oil and gas and ensure greater industrial benefits from energy development. Its purpose is to end Canada's dependence on imported oil and to correct a system which has worked against increased Canadian participation in the energy sector and in favour of the larger, mostly foreign-owned petroleum companies. In 1979, for example, 72% of oil and gas industry revenues went to foreign-owned companies at a time when the industry claims an ever rising share of our wealth. While this program will necessarily affect multinationals operating in Canada, including

U.S. firms, it continues to provide foreign investors with terms that compare favourably with those available in most other producing countries.

Canada, like the USA, must import oil to meet its domestic needs. At the same time, Canada produces significant surpluses in other forms of energy including natural gas, heavy oil and electricity, which we export to the USA. These exports are not large compared to total U.S. consumption, but they are important and reliable sources of supply for certain U.S. markets and earned Canada about \$6.6 billion in 1979.

Other areas of bilateral cooperation abound. The most significant example is the 1977 Northern Gas Pipeline Agreement. The southern segments of this project are well under way and will be used to export some of the current Alberta natural gas surplus until 1985 when, with the completion of the northern segments, Alaska gas can be transported to U.S. markets.

In 1979, the two countries published a joint study on Electricity Exchanges which identified opportunities for increased trade. With Alberta and Saskatchewan as full participants, they also signed an understanding on tar sands and heavy oil research and development. Since 1975, oil has been swapped across the border to maintain supplies to certain U.S. refineries with savings on transportation costs. The two countries are now looking into further cooperation on increased use of coal, petroleum product swaps and tar sands development.

Canada also cooperates closely with the USA and other nations on international energy questions and related financial issues in multilateral organizations, notably the International Energy Agency.

Environment

Cooperation on environmental matters predates even the 1909 signing of the Boundary Waters Treaty, which underpins our water resource management and environmental relations. Both countries assign high priority to the close monitoring and resolution of transboundary environmental problems of public concern on both sides of the border.

There are frequent bilateral consultations and negotiations on a wide variety of projects relating to the transboundary environment. The International Joint Commission, established by the Boundary Waters Treaty, plays an active and valuable part in these. It has certain regulatory functions and, at government request, undertakes special studies and makes recommendations.

An important recent development, reflected in a Joint Statement, July 26, 1979 and a Memorandum of Intent, August 5, 1980, is the commitment by both to reduce transboundary air-borne pollutants. This problem, and particularly the phenomenon known as acid rain, has been identified as a major threat to large areas in both countries.

Canada and the USA are committed to cooperative efforts to clean up the Great Lakes under the 1972 and 1978 Great Lakes Water Quality Agreements. The disposal of hazardous and toxic waste, particularly in the Great Lakes region, has recently become a matter of increasing concern to both governments.

The Garrison Diversion project in North Dakota, which could pollute the Hudson Bay watershed in Canada, is a continuing concern, as are tanker traffic, both on the West Coast and associated with the proposed oil refinery at Eastport, Maine, and the proposed U.S. flooding of the Skagit Valley in British Columbia.

Defence Relations

Close cooperation between Canada and the USA during World War II established a lasting pattern of joint defence planning. The Permanent Joint Board on Defence, established by the Ogdensburg Agreement of 1940, ensures continuous consultation on defence policy and plans. Canada and the USA are founding members of NATO. The North American Aerospace Defence Command (NORAD) Agreement between Canada and the USA has provided for joint command of the air defence of North America since 1958. The Agreement was renewed for five years on March 11, 1981, during President Reagan's visit to Ottawa.

The Canada/USA Defence Development and Defence Production Sharing Arrangements (DD/DPSA) are intended to ensure the maintenance of a long-term balance in reciprocal procurement of defence items and to utilize the industrial, scientific and technological resources of both countries in the interests of continental defence. During his visit to Ottawa President Reagan reaffirmed the importance the USA attaches to the Arrangements as the basis for cooperation in the defence economic field.

Fisheries and Maritime Boundaries

In January 1977, Canada extended its fisheries jurisdiction to 200 miles; the USA followed suit in March. The two claims overlapped. It then became necessary to establish a new bilateral framework for fisheries management and cooperation as well as to delimit the maritime boundaries in the Strait of Juan de Fuca and Dixon Entrance in the Pacific, in the Beaufort Sea in the Arctic and off the east coast.

On August 1, 1977 the two governments appointed special negotiators to recommend a resolution of these issues. After eighteen months of negotiations, agreement was reached on fisheries and maritime boundary settlement procedures for the east coast. Treaties were signed in Washington, D.C. on March 29, 1979. Negotiations on the three other maritime boundaries have been in abeyance pending final determination of the east coast boundary.

One of the treaties signed in March 1979 provided for the submission of the east coast boundary dispute to adjudication by the International Court of Justice. It was directly linked to the fisheries treaty, which provided for cooperative management and for specific access and entitlements to particular east coast fish stocks of mutual concern. For two years, the U.S. Senate did not act on the treaties. This became the most serious of all Canada's bilateral issues with the USA. It was exacerbated by U.S. over-fishing of stocks covered by the treaty during this period.

In March 1981, the U.S. Administration abandoned the fisheries treaty, separating it from the maritime boundary treaty and withdrawing it from the

Senate on grounds that the Senate would not consent to ratification. The Canadian Government has made known its profound disappointment at this action. The USA is proceeding to ratify the maritime boundary treaty alone and Canada is reviewing its position on the issue.

On West Coast fisheries, discussions have continued towards a comprehensive salmon interception agreement and a formal round of negotiations took place at the end of April, 1981.

On August 22, 1980, Canada and the USA agreed to an interim arrangement for reciprocal fishing of albacore tuna off the Pacific coast while negotiations proceeded towards a longer term treaty which would also provide for reciprocal landing of tuna at designated ports. A treaty to this effect was initialled in February and will be signed when Canada has assurances that it is approved by the U.S. senators most concerned and would therefore be ratified by the USA. Canada will continue to pursue its GATT rights which were impaired from the time the USA imposed an embargo on Canadian tuna products in 1979 until the lifting of the embargo when the interim arrangement was in place. This trade matter is now before a GATT panel.

Taxation

A Canada/U.S. Double Taxation Convention was signed in 1980 and is now awaiting U.S. Senate consent to ratification.

Extraterritoriality

An increasingly frequent irritant between Canada and the U.S. is the extraterritorial application of U.S. jurisdiction. Recent or current examples include: the Federal Reserve Board's involvement in certain Canadian bank activities with other Canadian financial institutions; the Inter-State Commerce Commission's efforts to deregulate U.S. railways in a way that could adversely affect Canadian railways in Canada; and attempts to have the Federal Maritime Commission regulate Canadian shipping between Canada and third countries when U.S. cargo or ports are involved.

Antitrust litigation in U.S. courts, launched by U.S. private parties against Canadian and other uranium producers, has raised serious concerns for Canada. The Canadian government maintains that actions of Canadian companies, taken outside the USA, which were required by Canadian law and pursuant to Canadian policy, should not be called into question by U.S. courts. Legislation (Bill C-41) was introduced in Parliament in July 1980 to protect Canadian citizens and corporations from extraterritorial rulings by foreign tribunals.

Broadcasting Measures

In 1976 a section of the Canadian Income Tax Act (Section 19.1) was amended so as to ensure the viability of the Canadian broadcasting industry by encouraging greater use of Canadian television outlets for Canadian advertising directed to Canadian markets. This action was opposed by the owners of a number of U.S. television stations near the border because it reduced their advertising revenues from Canadian sources.

In August 1978, a group of United States broadcasters filed a complaint with the office of the United States Trade Representative (USTR) imputing injury to United States commerce. On July 31, 1980, President Carter agreed with the USTR recommendation which found broadly in favour of the broadcasters' complaint. As a result of this decision the Administration has proposed legislation which would mirror Section 19.1. Congress has yet to act on this proposal. Section 19.1 remains an important feature of Canadian policy and there are no plans to change it.

CANADA/USA ECONOMIC INDICATORS

GNP

	<u>Canada</u> (Cdn current \$ billions)	<u>USA</u> (U.S. current \$ billions)
1976	191.0	1718.0
1977	208.8	1918.0
1978	229.7	2156.1
1979	260.3	2413.9
1980	288.1	2627.4

TRADE (Cdn. \$ millions) (customs basis)

	<u>TOTAL</u>		<u>WITH USA</u>	
	<u>Exports</u> (incl re-exports)	<u>Imports</u>	<u>Exports</u> (incl re-exports)	<u>Imports</u>
1978	53,182.8	50,101.6	37,371.6	35,436.3
1979	65,514.3	62,724.0	44,452.4	45,419.5
1980	75,932.9	68,979.4	48,058.4	48,414.1

(% Change)

	<u>TOTAL</u>		<u>WITH USA</u>	
	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
1978	19.2	18.4	20.1	18.7
1979	23.5	24.5	18.9	28.2
1980	17.8	11.4	8.1	6.6

DISTRIBUTION OF EXPORTS (% - 1978)

	<u>Canada</u>	<u>USA</u>
Canada	-	20
USA	70	-
Japan	6	9
EEC	9	22

DISTRIBUTION OF IMPORTS (% - 1978)

	<u>Canada</u>	<u>USA</u>
Canada	-	19
USA	71	-
Japan	5	14
EEC	9	17

BILATERAL TRADE (1980) (customs basis) (Cdn \$ billion)

Top ten Canadian Imports from USA (1980) 48.4

Motor vehicle parts, except engines	5.8
Passenger autos and chassis	3.4
Crude Petroleum	1.7
Electronic Computers	1.6
Precious metals incl. alloys	1.4
Motor vehicle engines	1.1
Other metals in ores, concentrates, scrap	1.0
Trucks, truck tractors and chassis	1.0
Aircraft complete with engines	0.8
Coal	0.8

Top Ten Canadian Exports to USA (1980) 48.1

Passenger autos and chassis	4.2
Natural gas	4.0
Newsprint paper	2.9
Crude Petroleum	2.9
Motor vehicle parts except engines	2.7
Trucks, truck tractors and chassis	2.3
Lumber, softwood	2.0
Precious metals incl alloys	1.9
Wood pulp	1.9
Petroleum and coal products	1.5

1980 BALANCE OF PAYMENTS WITH USA (Current Account/Cdn \$ Millions)

	<u>TOTAL</u>	<u>MERCH TRADE</u>	<u>NON-MERCH TRADE</u>
1976	-4090	519	-4609
1977	-4115	1496	-5611
1978	-4747	2241	-6988
1979	-7774	171	-7945
1980	-8250	799	-9049

RECEIPTS & PAYMENTS ON TRAVEL ACCOUNT/USA (Cdn \$ Millions)

	<u>RECEIPTS</u>	<u>PAYMENTS</u>	<u>BALANCE</u>
1976	1346	1956	-610
1977	1525	2280	-755
1978	1650	2553	-903
1979	1881	2457	-576
1980	2061	2844	-783

1980 CURRENT ACCOUNT - USA

	<u>\$ Millions</u>
Merchandise Trade Balance	799
Services Trade Balance	- 9179
Travel	- 783
Interest and Dividends	- 4516
Freight and Shipping	- 195
Other Business Services	- 3685
Net Personal and Institutional Transfer Payments	130
(Services Trade Balance Including Transfer Payment)	- 9049
 TOTAL CURRENT ACCOUNT BALANCE	 <u>- 8250</u>

PRICES & COSTS (% Change)

	<u>CPI-CDA</u> (% Change)			<u>CPI-USA(yr to yr)</u> (% Change)		
	<u>Total</u>	<u>Food</u>	<u>Non-Food</u>	<u>Total</u>	<u>Food</u>	<u>Non-Food</u>
1976	7.5	2.7	9.4	5.8	3.1	6.6
1977	8.0	8.3	7.9	6.5	6.3	6.5
1978	8.9	15.5	6.4	7.7	10.0	7.2
1979	9.1	13.2	7.9	11.3	10.9	11.4
1980	10.2	10.7	10.0	12.4	n/a	n/a

	<u>Industry Selling Price Index/CDA</u> (%Change)	<u>Producer Price Index</u> (Finished Goods)/USA (%Change)
1976	5.1	3.3
1977	7.9	6.6
1978	9.2	9.2
1979	14.5	12.6
1980	13.4	11.7

	<u>United Labour Costs/CDA</u> (1971 = 100)	<u>United Labour Costs/USA</u> (Non-farm Business Sector 1967 = 100)
1976	165.9	166.0
1977	178.0	175.2
1978	187.6	190.4
1979	202.2	210.2
1980	224.5	n/a

EMPLOYMENT

	<u>Labour Force/CDA (% Change)</u>	<u>Labour Force/USA (% Change)</u>
1976	2.3	
1977	2.8	3.4
1978	3.6	3.1
1979	3.0	2.5
1980	2.8	n/a
	<u>Unemployment Rate/CDA</u>	<u>Unemployment Rate/USA</u>
1976	7.1	7.7
1977	8.1	7.0
1978	8.4	6.0
1979	7.5	5.8
1980	7.5	7.1

USA DOLLAR IN CDN CENTS (average noon spot rate)

1976	98.60
1977	106.34
1978	114.07
1979	117.14
1980	116.92

FOREIGN INVESTMENT (Latest Statistics Canada Estimates)

U.S. Direct Investment in Cda	\$34.9 billion (end of 1976 cumulative)
U.S. Portfolio Investment in Cda	\$18.3 billion (end of 1975 cumulative)
Canadian Direct Investment in USA	\$6.05 billion (end of 1976 cumulative)
Canadian Portfolio Investment in USA	\$3.2 billion (end of 1975 cumulative)

IMMIGRATION

	<u>Canada to USA</u>	<u>USA to Canada</u>
1975	6,034	20,155
1976	12,256	17,315
1977	20,663	12,888

BORDER CROSSINGS (millions)

	<u>Canada to USA</u>	<u>USA to Canada</u>
1975	32.9	34.5
1976	35.9	32.2
1977	37.9	31.8
1978	37.3	31.6
1979	34.4	31.2
1980	34.7	38.5

POPULATION

	<u>Canada</u>	<u>USA</u>
1980	24,000,000	222,807,000

U.S. GENERAL RELATIONS DIVISION

Canadian Foreign Policy

TEXTS

82/8

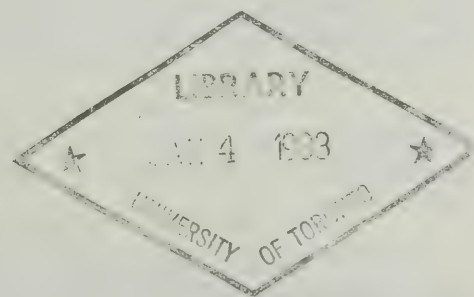
September 1982

CANADA AND THE NORTH-SOUTH DIALOGUE

Introduction

The countries of the North realize that in a world where economic, political, environmental and humanitarian interests are increasingly intertwined, it is impossible to remain in isolation from the problems of the South. Humanitarianism dictates that it is unacceptable for one-quarter of the world's population to starve when the rest is affluent. Enlightened self-interest points out the mutual benefits that will accrue when, according to World Bank estimates, over the next decade the developing countries will contribute more than 25 per cent of the increase in world production and account for about 30 per cent of the increase in world trade.

From the post-Second World War period to the present, the nature and focus of economic relations between developed and developing countries has gradually changed from emphasis on aid to other aspects of the international economic system. The developing countries' rallying call for a "new international economic order" in 1974 resulted in agreement the following year on areas in which specific future negotiations should concentrate to achieve a more just and equitable international system.



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Late in 1975, the Conference on International Economic Co-operation (CIEC) was set up under the co-chairmanship of Allan J. MacEachen, then Canada's Secretary of State for External Affairs and Manuel Perez Guerrero, Venezuela's Minister of State for International Economic Affairs, to determine if a limited group of developed, oil-importing developing countries and OPEC, could reach specific agreements. Although a spirit of co-operation and common purpose seemed to be emerging during the conference, CIEC ended in 1977 with only limited success.

In an effort to give greater momentum to the dialogue between North and South and to facilitate the participation of all countries, a proposal was adopted in 1979 to launch "Global Negotiations on International Co-operation for Development" to examine key issues in five areas: trade, raw materials, food, energy, and money and finance. Discussions on how to launch these global negotiations have continued, both in restricted groups - such as the 1981 Ottawa and 1982 Versailles Summits of the seven major industrialized countries and the Cancun (North-South) Summit - and at the United Nations.

Canada's Role

Canada's first undertaking with the developing world was in 1951 when we played an active role in the establishment of the Colombo Plan, a Commonwealth fund to provide technical assistance to developing countries of the Commonwealth. In the late 1960s, a United Nations Commission, chaired by the late Prime Minister Lester Pearson, produced a major report on development issues and possible solutions. The Pearson Report had a significant impact on approaches to assisting the poorer countries. Canada has since endeavoured to ensure practical results for North-South negotiations in spite of the many problems.

The main report of the Parliamentary Task Force on North-South Relations in December 1980 emphasized that Canada is uniquely placed to lead in the North-South dialogue and bridge the gap between the two groups. Canada has many links throughout the world. Our membership in the Commonwealth, and in la Francophonie -- an informal association of French-speaking countries -- give us close relations with a number of developing countries in Africa. We have hemispheric and historic ties with countries of the Caribbean and Latin America, while our Pacific coast gives us a direct link with Asia.

Canada's economy, based on resources, also relies on advanced technology and industrial production, which enables us to more readily understand the concerns of developing countries and our industrialized partners.

Encouraged by the support of the North-South Task Force, the government has played a constructive role in the North-South dialogue, setting out guidelines for the Canadian response based on principles of humanitarianism and mutual benefit. They include a recognition of interdependence, the need to harmonize external and domestic policies

which have an impact on developing countries, the need for a variety of policy instruments to respond to the requirements of developing countries and the greater integration of the South into the international economic system.

Whether or not global negotiations begin, negotiations will continue in various international fora, on such matters as energy, money and finance, trade, industrial development, food and agriculture and development assistance.

Energy

The OPEC price increases encouraged developing countries to take a stronger stand on issues affecting them, which aggravated their economic difficulties if they had to import oil. The need for reduced reliance on nonrenewable hydrocarbon resources to meet global energy needs is widely recognized internationally.

Energy related projects already constitute nearly 25 per cent of Canada's bilateral aid and in August 1981 Prime Minister Trudeau announced at the UN Conference on New and Renewable Sources of Energy in Nairobi, that Canada would make further contributions including more than \$1 billion of energy related bilateral assistance during the following years.

The creation of Petro-Canada International to help emerging countries develop their own energy resources, particularly hydrocarbons, is a unique, pioneering initiative in this area.

Money and Finance

Some developing countries have had balance of payments difficulties due to oil price increases, declining prices for their exports and heavy borrowing to finance development. This has made it difficult for them to pay for the imported food, oil and fertilizer they require and has resulted in their putting forward far-reaching and controversial proposals for changes in the international monetary and financial systems.

Canada, with other nations, has explored ways to make such institutions as the International Monetary Fund and the World Bank more effective. Similarly, in 1978, recognizing their growing financial problems, Canada cancelled outstanding debts owed to us by the Least Developed Countries. Since then Canadian assistance to these countries has been in grants rather than loans.

Trade

To a greater or lesser degree, developing countries need increased opportunities to sell their products abroad and the developed countries provide many of the best markets. At times there is direct competition with products from developed countries, which leads to

protectionist measures but, in general, developed countries recognize the need to facilitate access to their markets. The Generalized System of Preferences (GSP) is one important mechanism used by most Western countries to reduce tariffs on imports from developing countries. Trade negotiations also take place within the General Agreement on Tariffs and Trade (GATT) and a GATT ministerial meeting in 1982 discussed trade policy for the 1980s. Canada is working within these organizations and the United Nations Conference on Trade and Development (UNCTAD) to encourage the international trading community to strengthen the open, multilateral trading system which is in the interests of both North and South.

Commodities

Foreign exchange earnings by developing countries often depend on their exports of agricultural products and raw materials, known collectively as commodities. Commodity prices are subject to wide price fluctuations on international markets which makes it difficult for developing countries to plan their budgets. Canada has taken a constructive part in UNCTAD negotiations to stabilize commodity prices. On January 15, 1981 Canada signed the agreement which established the Common Fund for Commodities, \$750 million which will help finance commodity agreements with buffer stock provisions and commodity development measures.

Food and Agriculture

One of the most pressing issues facing North and South is the need to reduce the food shortfalls that force one-quarter of the world's population to live in starvation. Greater world food security is necessary for humanitarian reasons and a prerequisite to overall economic and social development. North and South are working together to improve the situation, not only with the short-term solution of food aid but by longer-term solutions such as increased food production, conservation, family planning, land reform and fisheries development.

Food aid has long been a major component of Canada's development assistance, and we provide approximately 600,000 tonnes of grain a year, as well as other food commodities. As part of the long-term solution, Canada recently made aid to agricultural development a priority in the Canadian development assistance program. Also, at the Commonwealth Heads of Government Meeting in Melbourne, October 1981, the Prime Minister announced the creation of a new International Centre for Ocean Development, specifically to organize the development of the world's vast oceans as a source of food.

Development assistance

Official Development Assistance -- grants and loans -- continues to be a central ingredient in the development of many of the poorest countries. Since the 1950s the Canadian International Development Agency (CIDA) has administered our aid program. In 1979-80,

CIDA provided about \$1.25 billion in aid. Of this, 48 per cent was for specific bilateral projects, while 41 per cent went to international multilateral institutions for projects in developing countries. Much of the balance went to nongovernmental organizations such as CUSO and OXFAM which provide assistance to Third World countries, and to fund the activities of the International Development Research Centre, an international body to promote research in developing countries.

Canada's policy is to focus on the basic needs of people in the poorest countries, particularly in rural areas, and on energy, agriculture and human resources. The Canadian government is pledged to reach an aid target of .5% of Canada's Gross National Product (GNP) by 1985 and to make strong efforts to reach .7% by the end of the decade. In accordance with the Plan of Action adopted by the UN Conference on the Least Developed Countries, held in Paris in September, 1981, Canada has agreed to allocate .15% of GNP for the Least Developed Countries.

Recent Developments

At the Ottawa Summit of July, 1981, government leaders of the seven major industrialized countries spent considerable time on North-South problems, as did the Commonwealth Heads of Government Meeting in Melbourne. The North-South Summit in Cancun, Mexico in October, 1981 increased the involvement of world leaders. In Canada's view, that meeting was, overall, a success. Under the co-chairmanship of Prime Minister Trudeau and Mexican President Lopez Portillo, leaders of 22 developing and developed nations held informal and constructive discussions. Despite divergent philosophies and interests, a spirit of trust and confidence enabled them to agree on priorities for future co-operation, including food and agriculture. Finally, they reaffirmed their commitment to try to launch Global Negotiations on a mutually agreed basis at the UN, where efforts to reach a consensus will continue. At the 1982 Versailles Summit, the industrialized countries renewed their commitment to increased co-operation with developing countries.

North-South issues will not be resolved at any single conference no matter how great the goodwill, and the North-South dialogue will continue to evolve for many years.

Canada

Canadian Foreign Policy

TEXTS

83/2

RELATIONS BETWEEN CANADA AND THE USA

The Magnitude and Complexity of the Relationship

No other two countries in the world have so complex and extensive a relationship as Canada and the United States. They are each other's largest supplier and customer. They co-operate in the defence of the North American continent and, through the North Atlantic Treaty Organization, Western Europe as well. They share and manage an environment along an 8 891-kilometre border. Canadians and Americans are linked by countless personal, family, academic, cultural, professional business and trade union ties. The two countries are each other's largest source and destination of tourists, with some 70 million border crossings in 1982. The bilateral relationship is based on abiding friendship and mutual benefit and in many respects sets the standard for the civilized conduct of international relations.

Management of the Relationship

Although most contacts between Americans and Canadians take place outside the government sphere, management at that level is essential to the harmony of the relationship. The Prime Minister and the President play the central roles in this management and are assisted by their respective Cabinet colleagues and their officials. Deputy Prime Minister and Secretary of State for External Affairs Allan J. MacEachen and US Secretary of State George Shultz, during the latter's visit to Ottawa on October 24-25, 1982, agreed that they would meet regularly to give personal direction to the management of the bilateral relationship. Their latest meeting was in Washington, April 10-11.

The embassies and diplomatic services of the two countries are the principal channels of communication on policy matters. Bilateral agreements, arrangements and understandings

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cover a vast array of subjects. Crossborder regional relations are also close between Canadian provinces and American states within their areas of jurisdiction.

Canadian Representation in the USA

In addition to the embassy in Washington, Canada maintains 14 consulates-general in the USA (Atlanta, Boston, Buffalo, Chicago, Cleveland, Dallas, Detroit, Los Angeles, Minneapolis, New Orleans, New York, Philadelphia, San Francisco, Seattle). The consulates-general represent Canada in their territories and implement general relations, trade, immigration, tourism, consular and cultural programs. Several Canadian provinces maintain non-diplomatic offices in the USA.

Trade

In 1982 two-way trade totalled \$85.5 billion (US). The value of Canadian exports to the USA was \$46.7 billion (US), over two-thirds of total Canadian exports. Canadian imports from the USA were valued at \$38.7 billion (US) or about 15 per cent of all US exports. The scale of Canada-US trade and investment flows means that economic policies in one country can have a significant impact on the other. Using a formula developed by the US Department of Labour that one billion dollars of exports produces 50 000 jobs, it is calculated that almost two million jobs in the USA are dependent on exports to Canada. The USA sells more to Canada than to Britain, West Germany, France and Italy combined and almost twice as much as to its next largest single trading partner, Japan. Seventy per cent of all Canadian imports came from the USA in 1982. The trade balance in 1982 was \$8 billion (US) in Canada's favour, which was unusually high. This was mainly because of the recession, which has hit Canada hard and resulted in a 14.5 per cent decline in Canadian imports from all sources. The increased value of the US dollar also made imports from the USA more expensive. The current account, however, remained over \$1 billion (US) in the USA's favour.

Full implementation of the results of the Multilateral Trade Negotiations will substantially benefit bilateral trade. It has been estimated that by 1987 over 90 per cent of Canadian exports will enter the USA at tariffs of 5 per cent or less and that almost 80 per cent will be duty free. The agreements reached on such non-tariff measures as subsidies, countervailing duties and product standards should serve to make market access between Canada and the USA more secure. Similarly, the strengthened General Agreement on Tariffs and Trade (GATT) dispute settlement procedures should provide means to resist protectionist pressures, as should the efforts to reinforce and extend the multilateral trading system that are being undertaken pursuant to the ministerial level meeting the GATT Contracting Parties held in November 1982.

While the US Administration has expressed strong commitment to free trade principles, increasing protectionist pressures in the USA

are, nevertheless, a serious source of concern in Canada. The "lame duck" session of the 97th Congress passed two pieces of legislation that had an immediate adverse impact on Canadian trade interests. One was a prohibition against Defense Department procurement of specialty metals from the NATO allies, including Canada. The other was the Surface Transportation Assistance Act of 1982 which extended and greatly increased the Buy American provisions of the previous Act. Also, the US International Trade Commission has carried out investigations of Canadian potato and lumber exports to the USA. A segment of the US lumber industry filed the largest countervail case in US history against Canadian lumber. However, on March 7 the US Department of Commerce made a preliminary determination that Canada provides only minimal subsidies to its industry. Another source of Canadian concern has been the continuation of the Domestic International Sales Corporation (DISC), which has been found to be contrary to US GATT obligations. The USA has put restrictions on the import of beef and sugar. The US blended credit program for subsidizing agricultural exports is having an adverse impact on Canadian markets abroad. Controls on the import of specialty steels also appear to be imminent.

There are currently a number of bills before Congress that, if passed, could disrupt bilateral trade relations. One is the domestic auto content bill which could threaten the basis of rationalization of the North American industry achieved through the Auto Pact. Trade "reciprocity" legislation such as Bill S-144 could set back international trade relations. A particularly disturbing aspect of this legislation is the assertion that US enterprises have the right to invest (the "right of establishment") in foreign countries. Although this "right" is not recognized in international law, its denial would be grounds for retaliation by the USA. The Export Administration Act (discussed below) causes serious difficulties for Canada and other US trading partners largely because of its assertion of extraterritorial jurisdiction. Finally, Bill S-849, which proposes substantial modifications to US safeguard statutes, would infringe US GATT obligations in this area.

Canada and the USA enjoy a free trade arrangement in the automotive sector under the Auto Pact signed in 1965. In 1982 bilateral automotive trade reached \$28.5 billion (Cdn.) or one quarter of total two-way trade. In 1982, preliminary figures indicate that Canada had a surplus of \$3 billion (Cdn.). However, this surplus was the first since 1972. Canada experienced a deficit of over \$3 billion (Cdn.) in 1979, over \$2 billion in 1980 and \$1.7 billion in 1981 in automotive trade with the USA (Statistics Canada, customs basis). While Canada normally has a trade surplus in assembled vehicles, it usually has a deficit over-all and in the high technology, skill-intensive parts sector in particular.

Investment

Canada and the USA are the foremost destination for each other's foreign investment. The USA has over \$100 billion (Cdn.) in direct and portfolio investment in Canada, and Canada has an estimated \$25 billion (Cdn.) in the USA. Other foreign direct and portfolio investment in Canada is estimated at over \$50 billion (Cdn.), for a total of over \$150 billion (Cdn.). Some 80 per cent of all foreign direct investment in Canada is of US origin, controlling about 20 per cent of Canadian non-financial industry. Canadians account for about 13.6 per cent of all foreign direct investment in the USA, controlling less than .5 per cent of US non-financial industries. By sector the comparative Canadian and US situations are as follows:

Canada

(Source: Statistics Canada, CALURA data to end of 1980, based on assets)

	<u>% of Industry Foreign Controlled</u>	<u>% of Industry US Controlled</u>
Mining	34	26
Oil and gas*	60*	45*
Total manufacturing	43	32
Rubber industry	91	65
Transportation equipment	70	64
Chemicals industry	70	49
Electrical equipment	54	44
Heavy machinery	52	43
Textiles	54	43
Metal fabricating	35	28
Pulp and paper	35	28

* The Petroleum Monitoring Agency of the Department of Energy, Mines and Resources considers data based on upstream production revenues to be a more accurate indicator of foreign ownership and control in the oil and gas sector. On this basis, foreign control was 77.3 per cent in 1980 (US control 64.1 per cent)

USA

(Source: US Department of Commerce, data to end of 1974, which is the most recent available)

	<u>% of Industry Foreign Controlled</u>
Agriculture, forestry and fish	0.5
Mining	5.0
Oil and gas	18.0
Manufacturing	3.0
Construction	0.5
Transportation, communications and public utilities	1.0
Wholesale trade	3.0
Retail trade	1.0

The costs and benefits of the high degree of foreign control of the Canadian economy have been the subject of national debate in Canada at least since the late 1950s. As a result of this debate, and the studies and concerns it generated, the Foreign Investment Review Agency (FIRA) was established in 1974. The US private sector and, more recently, the US government have expressed concern about certain aspects of FIRA's operations such as trade-related aspects of certain undertakings offered to FIRA by foreign investors, and delays in the review process. However, FIRA recently instituted a number of administrative changes which appear to have eliminated delays as a problem. With regard to the impact of FIRA on trade, Canada and the USA have agreed to the examination of this issue by a GATT panel.

Although foreign investment levels in the USA are modest in comparison to Canada's, the USA has taken measures in its own national interest to restrict or regulate foreign investment in certain sectors of the economy, such as coastal shipping, aviation, broadcasting, telecommunications and nuclear and hydro power generating facilities. Many individual US states have restrictions on foreign investment in specific sectors. The USA also has indirect controls on foreign investment, including anti-trust laws, congressional lobbying and monitoring by such bodies as the Committee on Foreign Investment in the United States.

Energy

Energy issues continue to be an important focus of national and international attention and to figure prominently in Canada-USA relations. While pursuing their respective domestic programs, the two countries consult and co-operate in areas of mutual benefit.

The Canadian government's basic energy policy is set out in its National Energy Program (NEP) of 1980. This comprehensive program

is designed to restructure Canada's energy system. The goals are: self-sufficiency in oil by 1990; an equitable sharing of energy benefits and burdens among Canadians; a higher level of Canadian ownership and control of the energy sector; an expanded role for the public sector in oil and gas; and greater industrial benefits from energy development. It provides a blueprint to end Canada's dependence on imported oil and to increase Canadian participation in the energy sector. In 1980, for example, 78 per cent of production revenues of oil and gas went to foreign-owned companies at a time when this industry was claiming a large share of the nation's wealth. The National Energy Program continues to provide foreign investors with terms that compare favourably with those available in most other producing countries. The US government takes the position that the Crown share contained in the NEP is a form of retroactive confiscation, albeit non-discriminatory in that it affects Canadian and foreign investors alike. The Canadian government maintains that it is a natural step in the evolution of the historical participation of the Crown in the costs and benefits of oil and gas development on the Canada lands (the North and offshore). The difference in view reflects the different land-holding systems of the two countries. In Canada the Crown is proprietor of the lands to which the Crown interest provisions apply.

Canada produces significant energy surpluses in natural gas, heavy oil and electricity, which are exported to the USA. These exports are not large compared to total US consumption, but earned Canada about \$11.2 billion (Cdn.) in 1982 (\$8.7 billion net of imports) while serving as important and reliable sources of supply in certain US markets. The price of Canadian gas exports to the USA is based on an agreed on formula determined by the price of imported oil. The price under this formula was reduced by 11 per cent to US \$4.40/MMBtu on April 11, 1983.

There are numerous other areas of bilateral co-operation, for example, the Northern Gas Pipeline. Construction of the southwestern and southeastern segments is complete. Both segments are being used to export some of the current Alberta natural gas surplus and when the northern segments are completed, will serve to transport Alaska gas to US markets.

In 1979, the two countries published a joint study on electricity exchanges identifying opportunities for increased trade. They also signed an understanding on tar sands and heavy oil research and development in which the provinces of Alberta and Saskatchewan are full participants. Under the terms of this Memorandum of Understanding, the US Department of Energy and the Alberta Oil Sands Technology and Research Authority signed an agreement in October 1982, to co-operate on a \$1.2 million project to research heavy oil recovery. In August 1982 the Department of Energy and Atomic Energy of Canada Limited signed an agreement to co-operate on research into radioactive waste management.

Since 1975, oil has been swapped across the border to maintain some supplies to certain US refineries while saving on oil transporta-

tion costs. Utilities in both countries are now looking into the possibilities of further co-operation in base-load electricity exports from Canada and, as members of the National Electric Reliability Council, into co-ordinated responses to energy-related emergencies.

Canada also co-operates closely with the USA and other nations on international energy questions and related financial issues in multi-lateral organizations, notably the International Energy Agency.

Environment

Canada assigns high priority to the close monitoring and resolution of transboundary environmental problems, which are of great public concern on both sides of the border. The 1909 Boundary Waters Treaty forms the basis of the water resource management and environmental relations between Canada and the USA.

There are frequent bilateral consultations and negotiations on a wide variety of projects relating to the transboundary environment. An active and valuable role is played by the International Joint Commission (IJC), established by the Boundary Waters Treaty. The IJC fulfils certain regulatory functions and, at government request, undertakes special studies and makes recommendations.

Under an August 5, 1980 Memorandum of Intent Canada and the USA agreed to develop a co-operative agreement to reduce transboundary air-borne pollutants. This problem, and particularly the phenomenon known as acid rain, has been identified as a major threat to large areas of both countries. Formal negotiations began in June 1981 and there have been three subsequent sessions, in November 1981, February 1982 and June 1982. At the February session Canada announced that it was prepared to undertake a reduction in sulphur dioxide emissions in eastern Canada of 50 per cent by 1990, contingent on parallel action by the United States. At the June 1982 meeting, the US side described the Canadian proposal as premature and called instead for more research.

In an attempt to break the present impasse US Secretary of State Shultz and Canadian Deputy Prime Minister and Secretary of State for External Affairs MacEachen agreed at their meeting in Ottawa on October 25, 1982 to have officials prepare papers outlining the two sides' respective positions on the state of the science on acid rain (USA) and possible abatement actions and costs (Canada). At their meeting on April 11, 1983, the two foreign ministers considered possible future action based on the papers. They agreed that the chairmen of the two groups of independent scientists currently completing a review of Canada-US acid rain studies would attend their next meeting and in the meantime would consult formally.

Pursuant to the 1972 and 1978 Great Lakes Water Quality Agreements, Canada and the USA have committed themselves to take specific measures which will eliminate or reduce to the maximum extent

practicable the discharge of pollutants into the Great Lakes system. Both countries have had considerable success in recent years in controlling the eutrophication (aging) of the Lakes by progressively reducing the amount of phosphorous discharged into them. However, the current major bilateral concern relates to the presence of hazardous and toxic substances in the water, fish and sediments of the Lakes, especially Lakes Erie and Ontario. (Four million Canadians draw their drinking water from Lake Ontario). This problem is especially acute in the Niagara River area where most of these pollutants originate from industries and waste sites located on the US side. Canada has been strenuously pursuing this matter with US authorities in an effort to develop better bilateral means to ensure that Canadian concerns are fully taken into account by the USA as it acts to clean up the problem areas.

Another major issue is the Garrison Diversion project in North Dakota, which if completed would cause significant injury to health and property in Canada, in particular Manitoba's fishing industry. A solution to the long-standing Skagit Valley flooding issue appears to be within reach as a result of general agreement by British Columbia and Seattle on a settlement package.

Defence Relations

Close co-operation between Canada and the USA during the Second World War established a lasting pattern of joint defence planning. The Permanent Joint Board on Defence, established by the Ogdensburg Agreement of 1940, ensures continuous consultation at the policy planning level on bilateral defence matters. Canada and the USA are founding members of NATO. The North American Aerospace Defence Command (NORAD) Agreement between Canada and the USA has, since 1958, provided for joint command of the air defence of North America. The Agreement was renewed for five years on March 11, 1981, during the visit of President Reagan to Ottawa. Bilateral discussions continue on plans to modernize North American aerospace defences. In February 1983 Canada and the USA signed a weapons-testing agreement.

The Canada-USA Defence Development and Defence Production Sharing Arrangements (DD/DPSA) are designed to ensure the maintenance of a long-term balance in reciprocal procurement of defence items and to utilize the industrial, scientific and technological resources of both countries in the interests of continental defence. During his visit to Ottawa in March, President Reagan reaffirmed with Prime Minister Trudeau the importance the two countries attach to the Arrangements as the basis for co-operation in the defence economic field.

Fisheries and Maritime Boundaries

In January 1977, Canada extended its fisheries jurisdiction to 200 miles; the US 200-mile zone came into force in March of that year. The two claims overlapped. It then became necessary to establish a new

bilateral framework for fisheries management and co-operation, as well as to delimit the maritime boundaries off the East Coast, in the Strait of Juan de Fuca and Dixon Entrance in the Pacific, and in the Beaufort Sea in the Arctic.

On August 1, 1977 the two governments appointed special negotiators to recommend a resolution of these issues. After 18 months of negotiations, agreement was reached on fisheries management and maritime boundary settlement procedures for the East Coast. Treaties were signed in Washington, D.C. on March 29, 1979. Negotiations on the other three maritime boundaries have been in abeyance pending final determination of the East Coast boundary.

One of the treaties signed in March 1979 provided for the submission of the East Coast boundary dispute to adjudication by the International Court of Justice. It was directly linked to the fisheries treaty, which provided for co-operative management and sharing of East Coast fish stocks by Canada and the USA. For two years, the US Senate did not act on the treaties. In March 1981, the Canadian government expressed its profound disappointment when the US Administration concluded that the fisheries treaty would not receive Senate consent for ratification and withdrew it. On November 20, 1981 the two countries nevertheless exchanged instruments of ratification to bring the "de-linked" maritime boundary treaty into force. The court is expected to hand down a decision early next year.

US fishery conservation and management in the disputed area of Georges Bank continues, in the Canadian view, to be less effective than necessary. the USA's adoption of its first scallop management plan represents some progress, but this was done only after much increased US fishing had brought the resource in the area to a critical state. At the same time, however, the US is greatly relaxing its management of the Georges Bank groundfish fishery.

With respect to West Coast fisheries, in July 1981 Canada and the USA ratified a treaty providing for reciprocal fishing of albacore tuna off the Pacific coast and for reciprocal landing rights at designated ports. Also, in December 1982, Canadian and US negotiators initialled a comprehensive Pacific salmon interception treaty. The draft is currently being reviewed by the two governments.

Taxation

A Canada-US Double Taxation Convention was signed in 1980 but has not yet been submitted to the US Senate for advice and consent. Before ratification can proceed several technical questions will require clarification. It is hoped that these will be resolved shortly.

Extraterritoriality

A long-standing cause of irritation between Canada and the USA is the assumption of jurisdiction by US government and regulatory agencies over persons, property and events in Canada. As early as 1958 the Canadian government expressed its concern regarding the extraterritorial reach of US controls on exports to the People's Republic of China. Five years later, the enactment of the Cuban Assets Control Regulations (and amendments in 1975 and 1977) raised similar concerns. Two recent examples of attempts by the USA to exercise jurisdiction beyond its borders are proposals to have the Federal Maritime Commission regulate Canadian shipping between Canada and third countries when US cargo or ports are involved; and the US oil and gas sanctions imposed by President Reagan against the Soviet Union. In this latter case the USA sought to extend its economic sanctions against the USSR through the exercise of extraterritorial controls, contained in the current US Export Administration Act, on the export of oil and gas field equipment and technology by third countries to the USSR. While the impact of the sanctions was primarily on Europe, Canada as a matter of principle voiced its opposition to this assertion of US jurisdiction over Canadian companies.

The anti-trust litigation in US courts launched by US private parties against Canadian and other uranium producers in the late 1970s raised serious concerns for Canada. The Canadian government maintains that in this case the actions of Canadian companies, which were taken outside the USA and were required by Canadian law and policy, should not be reviewed by US courts. Legislation (Bill C-41), introduced in Parliament in the summer of 1980 and aimed at protecting Canadian citizens and corporations from the effects of assertions of extraterritorial jurisdiction by foreign tribunals, has been withdrawn for review. It is expected that the Bill will be re-introduced in the near future. Over the past several months there have been bilateral discussions on a number of issues involving extraterritoriality. There has been progress in negotiating a Memorandum of Understanding on anti-trust co-operation, which should help to avoid some of the problems that have arisen in the past. However, the proposed Understanding does not address the underlying issues of principle on which there remain fundamental disagreements.

As the US Export Administration Act of 1979 will expire on September 30, 1983, the Administration and Congress are currently considering its revision. Canada's concerns are largely centred on the extraterritorial effect of the Act's provisions extending US export controls to companies incorporated in Canada and other countries. The proposed Act seeks to broaden and strengthen US assertions of extraterritorial jurisdiction. For example, the President would be authorized to prohibit imports from foreign firms which fail to comply with certain US export control directives.

Communications

The Canada-US relationship in the field of communications is the most complex and sophisticated between any two countries. Operational agreements between Canadian and US telecommunications carriers govern transborder telephone, telex, and data traffic and new technologies such as satellite and computer communications will probably be accommodated through similar arrangements. Relations are characterized by a high degree of co-operation and close co-ordination. However, the different communications policies in the two countries (i.e. the US "open skies and free market" compared to the more "regulated, culturally sensitive" Canadian approach) have given rise to some areas of disagreement. Where these occur, they often reflect the different economic, political and social circumstances in each country.

One such example is the border broadcasting issue. In the Seventies Canadian stations, subject to Canadian content and other Canadian regulations, were having to compete with American stations not subject to such regulations. In 1976 the Canadian Income Tax Act (Section 19.1) was amended so as to ensure the viability of the Canadian broadcasting industry. It did this by removing a tax advantage from the Canadian advertising industry for using US television stations to reach Canadian audiences. As a result of pressure from a number of these US television stations near the border, the US Administration submitted tax legislation in 1982 to Congress which would mirror the effects of Section 19.1. This "mirror" legislation was not passed by the 97th Congress.

The New Canadian National Broadcasting Strategy announced in March will open up commercial opportunities to producers of US television programs, inter alia, by allowing the introduction of new foreign services on the Canadian cable systems.

CANADA-USA ECONOMIC INDICATORS

GNP

	<u>Canada</u> (Cdn current \$ billions)	<u>USA</u> (US current \$ billions)
1978	230.5	2 153.0
1979	261.6	2 412.8
1980	291.9	2 633.1
1981	331.3	2 937.7
1982	348.9	3 133.3

CANADIAN TRADE

	<u>TOTAL</u> (With all countries) (Statistics Canada on customs basis; in \$ millions Cdn)		<u>WITH USA</u> (CDA-USA reconciled statistics; in \$ billions US)	
	<u>Exports</u> (incl. re-exports)	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
1978	53 182.8	50 107.7	33.1	30.3
1979	65 641.3	62 870.7	38.5	37.9
1980	76 158.6	69 273.8	42.0	40.7
1981	83 678.0	79 129.4	47.4	44.6
1982	84 402.8	67 629.7	n.a	n.a

PERCENTAGE CHANGE

	<u>TOTAL</u> (customs basis)		<u>WITH USA</u> (CDA/USA reconciled statistics)	
	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
1978	+ 19.2	+ 18.4	+ 20.1	+ 18.7
1979	+ 23.4	+ 25.5	+ 19.2	+ 16.3
1980	+ 16.0	+ 10.2	+ 7.9	+ 9.1
1981	+ 9.9	+ 14.2	+ 12.9	+ 9.6
1982	+ 0.9	- 14.5	n.a.	n.a

DISTRIBUTION OF EXPORTS (% in 1982)

	<u>Canada</u>	<u>USA</u>
Canada	-	15
USA	68	-
Japan	5	9
EEC	9	21

DISTRIBUTION OF IMPORTS (% in 1982)

	<u>Canada</u>	<u>USA</u>
Canada	-	15
USA	70	-
Japan	5	13
EEC	7	22

TOP CANADIAN IMPORTS TO USA

1. Passenger autos and chassis
2. Natural gas
3. Trucks, truck tractors and chassis
4. Motor vehicle parts, except engines
5. Newsprint paper
6. Crude petroleum
7. Petroleum and coal products
8. Lumber, softwood
9. Wood pulp and similar pulp
10. Precious metals

TOP US EXPORTS TO CANADA

1. Motor vehicle parts
2. Passenger autos and chassis
3. Electronic computers
4. Motor vehicle engines
5. Crude petroleum
6. Coal
7. Telecommunications and related equipment
8. Trucks, truck tractors and chassis
9. Chemical products

1982 CANADIAN CURRENT ACCOUNT WITH USA

	Cdn. \$ millions
Merchandise trade balance	11 070
Services transactions:	
Travel	- 820
Interest and dividends	- 5 899
Freight and shipping	+ 2
Other service transactions	- 5 545
Balance on service transactions	- 12 262
Balance on goods and services	- 1 192
Net transfers	+ 147
 TOTAL CURRENT ACCOUNT BALANCE	 - 1 045

PRICES AND COSTS (% Change)

	<u>Total</u>	<u>CPI-CDA</u> (% Change)		<u>Total</u>	<u>CPI-USA (yr. to yr.)</u> (% Change)	
		<u>Food</u>	<u>Non-food</u>		<u>Food</u>	<u>Non-food</u>
1978	8.9	15.5	6.4	7.7	10.0	7.2
1979	9.1	13.2	7.9	11.3	10.9	11.4
1980	10.2	10.7	10.0	12.4	10.2	12.9
1981	12.5	11.4	12.8	8.9	4.3	9.9
1982	8.5	5.2	13.3	4.1	3.6	4.9

EMPLOYMENT

	<u>Unemployment Rate/CDA</u>	<u>Unemployment Rate/USA</u>
1978	8.4	6.0
1979	7.5	5.8
1980	7.5	7.1
1981	7.6	7.6
1982	11.0	10.1

CDN. DOLLAR IN US CENTS

1978	87.72
1979	85.38
1980	85.54
1981	83.42
1982	81.08

FOREIGN INVESTMENT (latest Statistics Canada estimates in Canadian dollars)

US direct investment in Cda.	\$54 billion (end of 1982 cumulative)
US portfolio investment in Cda.	\$50 billion (end of 1982 cumulative)
Canadian direct investment in USA	\$18 billion (end of 1982 cumulative)
Canadian portfolio investment in USA	\$ 7 billion (end of 1982 cumulative)

BORDER CROSSINGS (millions)

	<u>Canada to USA</u>	<u>USA to Canada</u>
1978	37.3	31.6
1979	34.4	31.2
1980	34.7	38.5
1981	33.6	39.8
1982	31.3	39.1

POPULATION (millions)

	<u>Canada</u>	<u>USA</u>
1982	24.7	231.3

Canada

Canadian Foreign Policy

TEXTS

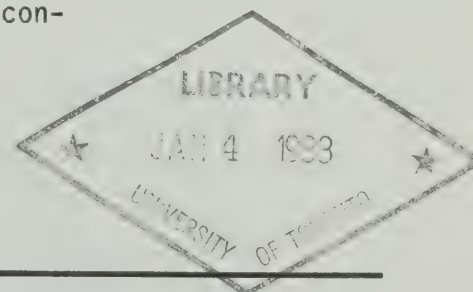
82/7

September 1982

Canadian Consulates: An Aspect of Canada-US Relations

While Canada's embassies abroad are responsible for intergovernmental affairs, in some large countries, or where Canada has particular regional, economic, political or cultural interests, the embassies are assisted by consulates general and consulates. Canadian consulates exist in Australia, Brazil, Britain, France, Germany, Italy and in the United States, which has the largest number because of mutually extensive trade, transboundary and personal relations.

The 14 consular posts in the USA contribute significantly to the advancement of Canadian interests. They are located in Atlanta, Boston, Buffalo, Chicago, Cleveland, Dallas, Detroit, Los Angeles, Minneapolis, New Orleans, New York, Philadelphia, San Francisco and Seattle, each with responsibility for large local areas and adjacent states. Traditionally they have been involved in trade promotion, tourism, immigration, and also, services to travelling Canadians. While these are important functions, in recent years the role of the consulates has evolved and they have developed programs to respond to Canada's need to expand its economic and political information gathering and, in turn, to disseminate information to Americans about Canada and its concerns.

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Many of the Canadian consulates in the USA cover areas of greater economic importance to Canada than any one of our other trading partners abroad. For example, Canadian exports to the Detroit area are worth more than Canada's exports to all of Western Europe. Exports to each of the New York and Minneapolis areas equal our exports to Japan, while the value of exports to each of the Cleveland, Chicago, Detroit, Minneapolis, New York and Seattle posts' territories is greater than the value of Canadian exports to Britain.

Investment in Canada from various regions in the USA is greater than investment from overseas, while Canadian investment in the USA has increased dramatically in recent years.

The Canadian consulates in the USA deal with issues which have a bearing on the daily lives of Canadians. They include acid rain, exports of natural gas and fisheries.

Like Canada, the USA is a country with distinct regional differences and interests that influence national policies. State governments have jurisdiction over some economic, political and environmental issues that have a direct impact on Canada. The consulates keep abreast of these regional issues and attempt to influence them in a way which protects Canadian interests.

The New York Consulate General, in particular, has an important responsibility in monitoring Wall Street and maintaining contacts with executives and analysts of the many multinational enterprises headquartered in New York. It also assists the provinces when they seek to borrow money in New York. Our consulates work closely with potential US investors in Canada, especially those in New York, Chicago, Los Angeles, San Francisco and, increasingly, Dallas.

Each Canadian consulate reports on important regional energy developments and investment prospects and, at the same time, explains the procedures of our national energy policy and Foreign Investment Review Act to Americans. The post in Boston helped to ensure a fair chance for a Canadian company to bid on and win a contract to supply that city with new buses, and the Seattle consulate has made a consistent contribution to our fisheries negotiations. Buy America legislation -- current and proposed -- has been a major preoccupation of virtually all of our missions in the USA.

The consulates also make representations and report on current transboundary issues such as acid rain, the Garrison and Skagit River Diversions, drilling near the Georges Bank scallop beds and the clean-up of the Great Lakes.

Through personal contacts, Canadian consular officers present a knowledgeable view of Canadian policy, which is persuasive but sensitive to American interests, to state politicians, senior executives, newspaper editors, the electronic media and academics.

The information and cultural affairs programs of our consulates promote informed, accurate and sympathetic reporting of Canadian affairs. Since New York, in particular, but also Los Angeles and Chicago are the print and electronic media centres of the USA, Canada's consulates general in these cities generate interest in Canadian affairs, providing facts and explaining the Canadian point of view on issues of the day.

The aim of our academic relations program is to develop an informed, well-disposed and sustained interest in Canada among the US intelligentsia. Teaching, research, seminars and publications as well as courses in Canadian studies in US universities are the more important means of pursuing this goal.

Canadian consulates help to publicize the excellence of individuals and groups in the various fields of the arts and often provide opportunities to show the sophisticated and original image of Canadian society. In 1981 for example, the New York Consulate General opened 49th PARALLEL, a gallery to exhibit the works of Canadian artists and musicians.

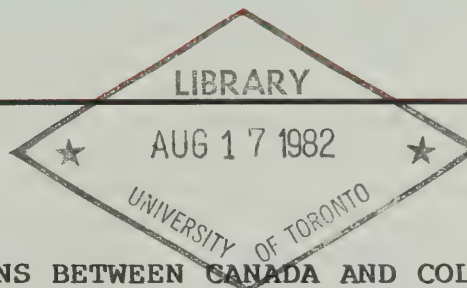
Opinion and developments in the United States are of fundamental importance to Canada both provincially and federally and the role of Canadian consulates in imparting a better knowledge and understanding of Canada to the American public will become increasingly important to the furthering of Canadian interests in the years ahead.

Canada

Canadian Foreign Policy

TEXTS

82/5



June 1982

RELATIONS BETWEEN CANADA AND COLOMBIA

A trade agreement with Colombia ratified in 1977 helped open commercial prospects for Canadian business and since then Canada has become increasingly important as a supplier to the Colombian market. In 1980, Canadian exports to Colombia increased by 90 per cent over those of the previous year to reach a total of \$185 million. Canada imports about 50 per cent of its coffee from Colombia and the country is one of the major recipients of our development assistance in Latin America.

Bilateral Relations

Although Canada and Colombia established diplomatic relations in 1951, relatively little attention was given by either government to developing the relationship until the late 1960s. In 1968, the Secretary of State for External Affairs led a mission, which included also the Minister of Energy, Mines and Resources and other Cabinet ministers, to Latin America. In 1971 a trade agreement was signed and Canada began providing bilateral assistance through a technical co-operation program in 1972.

The visit of the External Affairs minister in 1977 and that of the Minister of State for Trade in 1979 have further strengthened the relationship.



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Canada

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Programs Division

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Canada

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d'information au Canada

Trade and Aid

Although Canada still imports most of its coffee from Colombia, the percentage has declined in recent years so that there is no longer a rough balance of trade. In 1980, Canadian exports to Colombia had a value of \$185 million as against imports of \$101 million. Canadian exports include newsprint, asbestos, plastic and synthetic rubber, aluminum, barley, aircraft, computer equipment, auto parts and strip steel. Canadian imports from Colombia, besides green and instant coffee, include corduroy, bananas, fresh flowers, trees and shrubs and, since 1981, fuel oil.

The Canadian International Development Agency (CIDA) has an \$8.3 million aid program in Colombia, one of the largest in Latin America. As well as institutional co-operation, CIDA supports a number of rural projects and schools, including one that teaches furniture building. It also assists some non-governmental associations.

In addition, the International Development Research Centre, which was founded and is financed mostly by Canada, has its regional office in Bogota and its work is well known among government agencies and academics.

Colombia, which has a gross domestic product of (U.S.) \$26 billion, showed a growth in its economy of 6 per cent in 1980. Its major exports include coffee, fuel oil, cotton, tobacco, sugar, and textiles. Among its imports are transportation equipment, machinery, industrial metals, raw materials, chemicals and pharmaceuticals. Its most important markets are Japan, the USA, Germany, Venezuela and the Netherlands, with its imports coming chiefly from the USA, Germany, Japan and Ecuador.

History and Politics

Colombia has a population of more than 27 million made up of a number of ethnic groups: Mestizos (Spanish Indians), Caucasians, Mulattos, besides the Spanish settlers.

As Nueva Granada, Colombia was a Spanish colony for 300 years until it established its independence in 1819 as the Republic of Gran Colombia which included what are now

Venezuela, Ecuador and Panama as well as present-day Colombia. By 1903 the other three countries had all seceded. From the late 1940s to 1957, Colombia was wracked by "La Violencia," a turbulent period during which 300,000 people were killed.

A Liberal-Conservative coalition government brought an end to the violence in 1958, with provision for the presidency to alternate between the two parties every four years and for key positions to be equally divided. President Belisario Betancur (conservative) was elected on May 30, 1982. Inauguration ceremonies are scheduled for August 7, 1982.

Prospects for future development of Canada-Colombia economic ties are good. In addition to the already extensive trade and aid, there is strong Canadian interest in participating in such large projects as the El Cerrejon Coal project, the domestic satellite project and mass transit systems for Bogota, Medellin and Cali. Our expertise in agriculture, forestry and hydroelectricity made Canada highly competitive in these fields as well.

Canada

Canadian Foreign Policy

TEXTS

82/4

September 1982

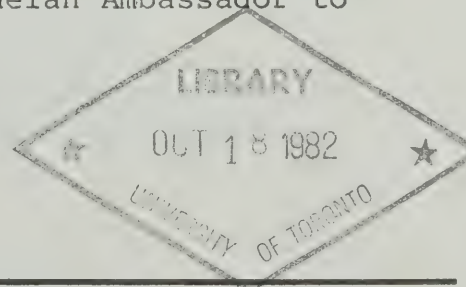
RELATIONS BETWEEN CANADA AND VENEZUELA

Venezuela, Canada's largest export market in Latin America, supplies significant quantities of our imported oil. Over the period 1971-79, bilateral trade increased three-fold to \$2.2 billion, with the increased value largely due to higher oil prices.

Bilateral Relations

Canada and Venezuela established diplomatic relations in 1953 and contacts at the ministerial level began to increase in the mid-1970s. In 1974 the Canadian Ministers of External Affairs and Regional Economic Expansion met with President Perez and their Venezuelan counterparts. Prime Minister Trudeau's official visit to Venezuela in 1976 strengthened the relationship.

Venezuelan Foreign Minister Zambrano visited Canada early in 1981 and Canadian Trade Minister, Lumley went to Venezuela in July of that year to inaugurate Telidon, Canada's two-way television technology. During Mr. Zambrano's visit to Canada it was agreed to negotiate a framework co-operation agreement to stimulate more diversified relations between the two countries. External Affairs Minister MacGuigan pursued these discussions during his visit to Venezuela in January 1982 and the agreement was signed by Mr. MacGuigan and the Venezuelan Ambassador to Canada on June 25.

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Trade

Until 1976, trade and economic relations between Canada and Venezuela were governed by an agreement providing for the exchange of most-favoured-nation (MFN) treatment. Although the agreement lapsed in 1976, Canada continued to extend MFN treatment to Venezuela. Canadian exports to Venezuela remained relatively stable at \$678 million in 1980 but imports from Venezuela grew to \$2.2 billion, an increase of 46 per cent caused by the higher price of oil. The quantity and quality of Venezuela's oil production has declined and Venezuela has attempted to diversify its markets which has reduced the amount of crude available to Canada. Despite this, Canadian oil imports from Venezuela were about 150 000 barrels a day, in 1980 or about 39 per cent of Canada's import requirements.

Venezuela's major exports include petroleum and petroleum products, iron ore, cocoa and coffee. Its imports include automobiles, automotive parts, machinery, chemicals and foodstuffs. Among its chief markets are the USA, the Netherlands, the Antilles, Canada and Britain. Considerably reduced demand in these markets has contributed to Venezuela's recent negative economic growth. Combined with high inflation and the possibility of further reductions in world oil prices, particularly those of OPEC, prospects for early recovery are not bright.

Canada's main exports to Venezuela are newsprint, auto parts, synthetic rubber and plastics.

From a Venezuelan perspective, Canada is an industrialized country sympathetic to the interests and concerns of developing countries and capable of playing a constructive role in the North-South dialogue. Canada is also an oil producer with experience and technical expertise, especially with tar sands, which is of great interest to Venezuela.

History and Politics

Venezuela's population which exceeds 15 million, is composed of Indian (Mestizo), European, African and American Indian ethnic groups. For more than 20 years it has had a republican form of government.

Currently, the President is Luis Herrera Campins of the Social Christian Party, known as "COPEI". Venezuela's first elected President was Romulo Betancourt, founder and leader of the Accion Democratica Party, which ousted Colonel Marcos Perez Jimenez in a combined military and civil movement in 1958. With the exception of a brief democratic period in the late 1940s, Venezuela had been a dictatorship for more than a century. Discovered by Christopher Columbus in 1498 and settled in 1502 by the Spanish who retained control until 1821, Venezuela achieved its independence from Spain under the leadership of Simon Bolivar.

Canada will, no doubt, continue to import a large proportion of its petroleum from Venezuela. Joint research in the field of energy is growing and the Venezuelan market for Canadian manufactured goods, particularly in the high-technology industries, is increasing in importance. This strong, mutually beneficial relationship will continue to develop for some time.

Canadian Foreign Policy

TEXTS

82/3

September 1982

RELATIONS BETWEEN CANADA AND MEXICO

Canada has a wider spectrum of relations with Mexico than with any other Latin-American country. Mexico shares with Canada a heavy reliance on the United States, both as a market and a supplier and, since Confederation, each country has looked to the other at various times as a potential market to ease this dependence.

The discovery in recent years of vast reserves of petroleum in Mexico has considerably enhanced Mexico's international stature and has given greater impetus to the bilateral relationship with Canada. The Canada-Mexico Agreement on Industrial and Energy Co-operation, signed during President Lopez Portillo's visit to Canada in May 1980, provided for sales of Mexican petroleum to Canada and for Canada's participation in Mexico's industrial development.

In addition to these trade relations, over 200,000 Canadian tourists visited Mexico in 1980 and more than 30,000 Mexicans came to Canada.

Bilateral Relations

Canada and Mexico established diplomatic relations in 1944 and in 1947 a trade agreement came into force that provided for mutual most-favoured-nation (MFN) treatment. Exchanges between the two governments have taken many forms, including an official visit to Canada by President Lopez Mateos in



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1959 and a return visit by Prime Minister Diefenbaker in 1960. Return visits at all levels of government have occurred over the past two decades. In 1968 a joint Mexico-Canada Committee at the ministerial level was created to provide a forum for periodic consultations on bilateral issues. The Committee's first meeting took place in Ottawa in October 1971.

Trade

Mexico has a rapidly growing economy with an eight per cent growth in 1980 and a gross domestic product (GDP) of \$119 billion (US). Its major exports include petroleum, coffee, metals and manufactures. It imports machinery, chemicals and auto parts.

During the 1960s, Canadian exports to Mexico more than doubled while Mexican exports to Canada more than tripled. In the 1970s the trend continued and, between 1973 and 1979, Canada's exports to Mexico doubled and imports increased by two and-a-half times. In the past two years the growth in two-way trade has been even more dramatic.

In 1980 Canada's exports to Mexico increased to \$482.8 million, more than double the 1979 level. Imports from Mexico increased to \$345.3 million, up 65 per cent from the 1979 level. Canada's imports included crude petroleum, coffee and telecommunications equipment while the major exports to Mexico were dairy produce, eggs and honey, steel, railway track material, asbestos and wheat.

In an attempt to ease its dependence on the USA, Mexico has developed its own "third option" policy, naming Canada as one of five industrialized countries with which relations should be intensified. In these circumstances Canada is in a good position to provide Mexico with North American technology. In particular, Canada can offer the highly advanced communications and transportation technologies sought by Mexico. Mexico has the uranium resources to allow for a major nuclear energy program which could include large-scale co-operation with Canada. There is also considerable potential for transfer of agricultural technology and natural possibilities in the petroleum sector.

Besides the large tourist trade between the two countries, personal contacts are fostered by various arrangements. An exchange agreement permits up to 20 young specialists and technicians from Canada and Mexico to spend a year working or studying in the other country and a scholarship system allows a small number of university students to do the same. Roughly 500 Mexican agricultural workers come to Canada each year to help in harvests. Under a Transfer of Offenders Treaty, Canadians and Mexicans may elect to finish a prison sentence in their own country.

History and Politics

Mexico is the third largest country in Latin America, after Brazil and Argentina and the most populous Spanish-speaking country in the world. The population of 68 million is made up of Spanish-Indian (Mestizo), American Indian and Caucasian ethnic groups, the heritage of its more modern history which began when Hernan Cortes overthrew the Aztec Empire between 1519 and 1521 and founded a Spanish colony which lasted nearly 300 years. Father Miguel Hidalgo proclaimed Mexico's independence in 1810 and the Republic was established in 1822. In 1836 Texas declared itself independent from Mexico and in 1846, war broke out with the United States. Severe social and economic problems and the repressive political régime led to the revolution of 1910 and since then the Institutional Revolutionary Party (PRI) has been the dominant political force in the country.

The election on July 4, 1982 of Miguel de la Madrid, who will become Mexico's president-elect on December 1, will ensure a good degree of continuity in the bilateral relationship. Mr. de la Madrid, a protégé of President Lopez Portillo, has a similar economic background.

CA1
EA 60
-C 12

Canadian Foreign Policy



TEXTS

82/2

May 1982

CANADA'S NUCLEAR NON-PROLIFERATION POLICY

	Page
I Introduction.....	1
II Treaty on the Non-Proliferation of Nuclear Weapons.....	3
III Canadian Nuclear Relations until 1974.....	4
IV Nuclear Suppliers Group.....	8
V Canada's Non-Proliferation Policy.....	10
VI Implementing Canada's Non- Proliferation Policy.....	13
VII The International Atomic Energy Agency's Safeguards System.....	17
VIII Current International Situation.....	18
IX Conclusion.....	21

I Introduction

Whatever else the second half of the twentieth century will come to be symbolized by, the unlocking of the power in the atom will be seen as one of the half dozen or so most significant developments. This power was demonstrated close to the mid-point of the century. There is no turning back the clock. Atomic energy is with us to stay.

It is common knowledge that energy can be released from splitting atoms both suddenly in an explosion and gradually in a nuclear reactor that has mechanisms controlling the rate of the chain reaction. Nuclear explosive devices are not particularly easy to make, nor are nuclear reactors, but there has always been a legitimate concern that nuclear reactors could assist in the development of a nuclear explosive device and, therefore, that nuclear reactors could lead to a proliferation of nuclear weapons. The question that has preoccupied many governments and individuals since nuclear energy was first shown to be viable is how to harness the energy in the atom while preventing the proliferation of nuclear weapons.



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A great deal has been written about nuclear proliferation and nuclear non-proliferation since the first detonation of a nuclear explosive device in 1945. This paper can at best provide a brief summary of the main events. The high point in the history of non-proliferation is of course the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) (1968-70). The establishment of the International Atomic Energy Agency (the IAEA or "The Agency") in 1957 is also highly significant, especially since it is the international body that is responsible for onsite inspections and safeguards measures that assist the member states of the Agency to demonstrate that no nuclear material is diverted to non-peaceful purposes from safeguarded nuclear facilities. Besides these international efforts, many countries that supply nuclear related materials, equipment or technology have developed national policies that they apply to the export of such nuclear items. The purpose of this paper, therefore, is to describe the development of Canada's non-proliferation policy since 1945 and to explain its current highly articulated state in the wider context of the developing international non-proliferation régime.

Before briefly tracing the evolution of the current non-proliferation régime, and of Canada's non-proliferation policy as one part of that regime, one clarifying observation should be made. International efforts to minimize the risk of nuclear proliferation have taken place against the background of the spread of nuclear explosive capability, from the United States in 1945 and the Soviet Union in 1949 to the United Kingdom and France in the 1950s and the People's Republic of China in the early 1960s. As a result, two types of proliferation have generally been designated: "horizontal" proliferation, which refers to the spread of nuclear explosive capability beyond the five Nuclear Weapon States (NWS) identified above; and "vertical" proliferation, which refers to the growth of the nuclear explosive programs of the five NWS. This paper deals only with the evolution of the international non-proliferation régime designed to respond to the threat of horizontal proliferation.

A risk of horizontal proliferation emerges from the possibility that the nuclear material, facilities and technology used in nuclear research and in the power-generating industry might be diverted or misused to develop a nuclear explosive device. A major consideration is that the proliferation of nuclear weapons is one important factor in global and, even more so, in regional security, although it is not necessarily the most critical factor. The essential determinant of proliferation is the degree of political incentive or disincentive (rather than the technical means) which countries face. Thus, while diversion of nuclear items from the civilian nuclear fuel cycle is one possible

technical route to the development of nuclear explosive devices, it is not the only, nor the most efficient, route. A political decision to proliferate would be better served by installing facilities dedicated solely to that objective. Controls on the diversion of nuclear items from civilian facilities are necessary, but it is clear that if a country has a sufficient political incentive, such controls would by themselves not stop that country. Any industrialized country and many developing countries could develop, if they so decided, a nuclear explosive capability. A general political commitment by a country not to proliferate is, therefore, as important as the specific controls that prevent diversion.

II Treaty on the Non-Proliferation of Nuclear Weapons

The immediate postwar period was a time in which the states involved in the Manhattan Project (the United States, the United Kingdom and Canada) and others tried to formulate a way of "entirely eliminating the use of atomic energy for destructive purposes and promoting its wider use for industrial and humanitarian purposes" ("Agreed Declaration on Atomic Energy", November 1945). In January 1946, after discussions between the United States, the United Kingdom and the Soviet Union, the United Nations passed a resolution creating the United Nations Atomic Energy Commission. Meanwhile, the United States adopted a national policy on atomic power, which was reflected in its Atomic Energy Act of 1946 and which placed an embargo on the export of nuclear materials and information.

During these years, however, it became evident that it would not be possible to prevent the spread of nuclear technology. This fact was recognized in the "Report of the International Control of Atomic Energy" (the "Acheson-Lilienthal Report"), which was prepared by a group under the leadership of Dean Acheson and David Lilienthal. President Eisenhower's speech to the UN General Assembly in December 1953 proposing the establishment of an international agency which would be devoted entirely to the peaceful uses of nuclear energy marked a further step in this process. On December 4, 1954, the General Assembly unanimously adopted an "Atoms for Peace" resolution calling for the establishment of such an agency. After two years of negotiations, the Statute of the International Atomic Energy Agency (IAEA) was unanimously approved and signed in October 1956. It came into force on July 29, 1957. It should be added here that one of the IAEA's functions, as stated in its Statute, is to "to establish and administer safeguards designed to ensure that special fissionable and other materials...are not used in such a way as to further any military purpose". The application of safeguards by the IAEA has from the beginning been one of the fundamental tenets of Canada's non-proliferation and safeguards policy

and the nuclear co-operation agreements that Canada has put into place with its various nuclear partners all call for such IAEA safeguards. The word "safeguards" therefore has a special meaning. (See Section V for an exposition of the IAEA Safeguards System.)

Thus international efforts to promote non-proliferation in the post-1957 period were based on the two principles first written in the November 1945 "Agreed Declaration on Atomic Energy" and later incorporated into the Statute of the IAEA: to eliminate the use of atomic energy for destructive ends and at the same time to promote its use in such fields as agriculture, industry, medicine and the generation of electricity. Since then, efforts to support the non-proliferation goal have been dominated by the question of how to achieve a proper balance between measures to advance these two principles.

By 1965 five states had nuclear arms, and there were signs that more states were moving toward acquiring such weapons. As early as 1958, Ireland had submitted a resolution at the UN General Assembly expressing concern over this trend. Growing international concern finally resulted in the negotiation of the 1968 Treaty on the Non-Proliferation of Nuclear Weapons (NPT). By 1970, 40 countries, including three of the five NWSs (the United States, the United Kingdom and the Soviet Union), had ratified the NPT, which then became effective on March 5 of that year.

The NPT had built into it a distinction between Nuclear-Weapon States (NWS) and Non-Nuclear-Weapon States (NNWS) which recognized the unique status of the five states (the United States, the Soviet Union, the United Kingdom, France and the People's Republic of China) which had manufactured and exploded a nuclear weapon before January 1, 1967. Many states viewed this distinction as discriminatory because the obligations placed on NWS and NNWS parties to the NPT are significantly different. NWS do not have to accept IAEA safeguards (although the United States, the United Kingdom and France have moved in this direction), while NNWS are required to accept IAEA safeguards on all source or special fissionable material under their control. However, under Article VI of the NPT, NWS obliged themselves to pursue negotiations in good faith on effective measures relating to the early cessation of the nuclear arms race and to nuclear disarmament.

III Canadian Nuclear Relations until 1974

Canada was one of the three states that participated in the November 1945 "Agreed Declaration on Atomic Energy". Throughout the years that followed, Canada played an active and significant role in efforts to define an international régime which would serve the twin principles set forth in

the Declaration. Hence Canada participated both in the drafting of the IAEA's Statute between April 1955 and October 1956 and in the Preparatory Commission appointed to make arrangements for the first sessions of the IAEA's General Conference and of its Board of Governors. Canada has had continuous representation on the Board of Governors since the founding of the IAEA and has strongly supported the Agency's efforts on nuclear safeguards. Canadian representatives were also involved in the negotiations of the Treaty on the Non-Proliferation of Nuclear Weapons.

While participating in the efforts to define an international non-proliferation régime, Canada's policy on horizontal proliferation evolved. This evolution reflected both international developments and the emergence of Canada's own nuclear technology.

At the end of the Second World War, Canada shifted its efforts from the weapons-oriented Manhattan Project to research and development for peaceful applications, to radionuclide production, and to the development of a commercial nuclear reactor for the generation of electricity. The Canadian government pledged voluntarily that it would not develop nuclear weapons. As knowledge, experience and awareness of nuclear technology increased in Canada and elsewhere, and as vertical proliferation took place through the 1950s and early 1960s, successive Canadian governments revised Canada's policy to minimize the risk that Canadian nuclear co-operation would contribute to nuclear proliferation.

Early in the 1945-1974 period Canada's interactions with other countries on nuclear matters were in two main areas: uranium exports and continuing technical co-operation with its wartime partners. However, as its reactor technology developed, Canada entered into agreements with several other countries for the transfer of that technology and related material and equipment. By 1974, Canada had exported research reactors to India and Taiwan, power reactors to India and Pakistan, and had signed a contract for the export of a 600 MW power reactor to Argentina. Discussions had also taken place concerning the sale of a power reactor to the Republic of Korea. Canadian nuclear trade during the 1945-1974 period was as follows:

(a) Uranium exports

Canada's uranium exports during the 1945-1974 period were carried out under nuclear co-operation agreements (Canada-Federal Republic of Germany in 1957; Canada-Switzerland in 1958; Canada-Euratom in 1959; Canada-Japan in 1959; Canada-Sweden in 1962) which made Canada's uranium exports subject

to a "peaceful uses" commitment and to acceptance by the importing country of bilateral verification measures by Canada or, increasingly, through IAEA safeguards.

From 1945 to 1965, Canada also exported uranium to the United States and the United Kingdom for use in their nuclear weapons programs. These export sales were carried out as part of Canada's defence relations with those two countries. This policy was ended in June 1965, when Prime Minister Lester B. Pearson, announced in the House of Commons that:

"as one part of its policy to promote the use of Canadian uranium for peaceful purposes the government has decided that export permits will be granted, or commitments to issue export permits will be given, with respect to sales of uranium covered by contracts entered into from now on, only if the uranium is to be used for peaceful purposes. Before such sales to any destination are authorized the government will require an agreement with the government of the importing country to ensure that appropriate verification and control that the uranium is to be used for peaceful purposes only".

With the announcement of this policy, all Canadian uranium exports became subject to a "peaceful uses" provision.

(b) India

In 1956, Canada concluded an agreement to supply a research reactor to India as part of its aid program to that country. This reactor, the CIRUS, was provided subject to assurances that it would be used for peaceful purposes only. The United States provided the heavy water. The provision of this reactor and subsequent nuclear co-operation between Canada and India were concrete demonstrations of Canada's desire to promote the principles set forth in the IAEA Statute and later in the NPT regarding the transfer of nuclear materials, equipment and technology for peaceful uses.

In 1963 Canada and India concluded an agreement for the construction of the first unit of a nuclear power station called the Rajasthan Atomic Power Plant (RAPP I). Under this agreement, India committed itself to using the fissionable material produced in the RAPP-1 reactor "only for peaceful purposes" and agreed that Canadian technical experts could verify this undertaking. In 1966 a second CANDU unit (RAPP II) was sold to India. Under a Canada-India-IAEA agreement concluded in 1971, the IAEA assumed the responsibility for applying safeguards at RAPP.

During the early 1970s Canada's concern that the plutonium contained in the fuel irradiated in the CIRUS reactor might be used for explosive purposes led the Prime Minister to write to Prime Minister Indira Gandhi in October 1971 to clarify Canada's views on "any further proliferation of nuclear explosive devices" and to state that "the use of Canadian supplied material, equipment and facilities in India, that is, at CIRUS, RAPP I or RAPP II, or fissile material from these reactors, for the development of a nuclear explosive device would inevitably call on our part for a reassessment of our nuclear co-operation arrangements with India". In response, Mrs. Gandhi agreed that the nuclear co-operation between Canada and India had been dedicated to "the development and application of nuclear energy for peaceful purposes", but added that "it should not be necessary now in our view to interpret these agreements in a particular way based on the development of a hypothetical contingency".

On May 18, 1974, India detonated a nuclear explosive device, claiming it was solely for peaceful purposes, that is, a "peaceful nuclear explosion" (PNE). The Canadian government, which does not distinguish between nuclear weapons and nuclear explosives, suspended its nuclear co-operation program with India. Later, India admitted that plutonium produced in the CIRUS reactor using uranium fuel of non-Canadian origin had been used in that explosive device. It continues to maintain, however, that since nuclear material of non-Canadian origin was used, there has been no breach of its undertakings to Canada.

(c) Pakistan

In 1959, Canada signed a nuclear co-operation agreement with Pakistan covering the provision of a 137 MW CANDU-type power reactor (KANUPP). The agreement was similar to that concluded later between Canada and India for the RAPP reactors. In 1969 Canada, Pakistan and the IAEA concluded an agreement under which the IAEA assumed the responsibility of safeguarding the KANUPP reactor. The reactor began commercial operation in 1972.

(d) Taiwan

In 1969, Canada sold to Taiwan a 40 MW nuclear research reactor, the Taiwan Research Reactor (TRR), complete with heavy water and fuel. This sale was conditional on Taiwan's concluding with the IAEA a safeguards agreement by which Taiwan would undertake not to use the TRR reactor in such a way as to further any military purpose. This agreement continues to be implemented, and the TRR reactor remains subject to IAEA safeguards.

(e) Argentina

In December 1973, Atomic Energy of Canada Limited and the Comision Nacional de Energia Atomica (CNEA) signed a contract for the supply of one 600 MW CANDU reactor to Argentina together with the fuel, heavy water and technology necessary for its commissioning, operation and maintenance. The December 1973 contract contained a clause requiring the completion of a safeguards agreement between Argentina and the IAEA before the contract could be implemented. This agreement was concluded in December 1974.

IV Nuclear Suppliers Group

Two developments in the mid-1970s led to a questioning of the non-proliferation régime. First, the interest in nuclear energy, particularly in advanced nuclear technologies, increased greatly owing to the "energy crisis" of 1973-74. The quest for greater energy independence by many industrialized countries and several developing ones, especially those with nuclear power programs that were without large indigenous uranium reserves, led to much more interest in reprocessing spent fuel to obtain plutonium for recycling in thermal reactors or for eventual use in fast breeder reactors. "Reprocessing" is basically a series of chemical processes in which spent fuel is first dissolved in an acid. Subsequently, substances of value that were produced in the reactor such as plutonium, or uranium that was not consumed while it was in the reactor, are extracted and separated for further use. Plutonium is itself a nuclear fuel that can be used in both traditional reactors as well as in fast breeder reactors. A fast breeder reactor is one that has a plutonium core surrounded by a uranium shell. In the course of operations, the plutonium is consumed but new plutonium is produced from the uranium in the shell. Thus the plutonium "breeds" new plutonium which in turn can be used as fuel.

It was generally agreed that the separation of plutonium from spent fuel and its subsequent use in recycling was a natural feature of an efficient light-water reactor fuel cycle. Moreover, the reprocessing of spent fuel was considered as an element of policy in the nuclear waste disposal programs of some countries and as a necessary step in the expected development of fast breeder reactors. In fact, the United States had declassified its reprocessing technology in recognition of this general understanding. Some of the other countries which had developed an indigenous reprocessing technology concluded that the export of that technology under IAEA safeguards was acceptable and, accordingly, entered into contracts to do so. However, because reprocessing released large quantities of plutonium, many people felt uneasy about the procedure. It was by no means clear in the mid-1970s whether or how reprocessing could be adequately safeguarded.

The second development which led to a serious questioning of the non-proliferation régime was India's "peaceful nuclear explosion" in May 1974 which had used plutonium derived from the reprocessing of spent fuel from an unsafeguarded research reactor. To some countries, this incident revealed the need for more explicit and comprehensive non-proliferation commitments. Specifically, steps would have to be taken to minimize the (perceived) proliferation risk associated with reprocessing.

It was in this international environment that the major nuclear suppliers - the Nuclear Suppliers Group (NSG) - met in an effort to reach agreement on "guidelines" to cover their nuclear exports. This meeting was convened largely in response to a Canadian and U.S. initiative. The resulting guidelines, which were published in a January 1978 information circular issued by the IAEA (INFCIRC/254) clearly represent a high-point in international co-operation with respect to non-proliferation. The guidelines augment the principles of the IAEA Statute and the NPT and constitute a significant upgrading in the attention to be paid to non-proliferation in the context of international nuclear commerce.

The important elements of the NSG guidelines are:

- a) items on the NSG "Trigger List", that is, the defined list of nuclear items that should trigger the application of the requirements of the guidelines, are to be transferred only upon an assurance that they will not be used in any activity that would result in a nuclear explosive device;
- b) Trigger List items should be transferred only when covered by IAEA safeguards;
- c) technology related to reprocessing, enrichment or heavy water production facilities should be subject to the requirements in a) and b);
- d) special controls and considerations should be applied to the export of "sensitive technologies", that is, enrichment and reprocessing technologies and to the export of enrichment and reprocessing plants;
- e) transfers of reprocessing, enrichment or heavy water production facilities or related technology would require that IAEA safeguards be applied to facilities of the same type built during an agreed upon period in the recipient country;
- f) retransfers of Trigger List items should take place only when assurances have been given by the third party which are the same as those covering the original transfer;

g) retransfers of reprocessing, enrichment or heavy water production facilities, major critical components thereof or related technology should require consent of the original supplier. The same prior consent would be applied to derived facilities or major critical components thereof and to any heavy water or weapons-usable material.

Canada has followed the NSG guidelines in good faith and they are incorporated in all bilateral agreements that have been concluded to date. The guidelines are in fact a subset of Canadian policy.

V Canada's Non-Proliferation policy

Canada was one of those countries in which the public's perception of the proliferation risk associated with nuclear exports sharpened after India's "peaceful nuclear explosion" in May 1974. Accordingly, Canada's non-proliferation policy was reviewed and in December 1974 the government announced stricter controls on the export of Canadian nuclear material, equipment, technology and heavy water to all states whether NWS or NNWS. The policy continued to be under examination and in December 1976 another announcement was made concerning new nuclear co-operation. These two announcements together established Canada's non-proliferation policy as it exists today. That policy, in a consolidated form, is as follows:

A. Nuclear co-operation will be authorized only for those non-nuclear weapon states that have made a general commitment to non-proliferation by either having ratified the NPT or having taken an equivalent binding step and that have thereby accepted IAEA safeguards on the full scope of their nuclear activities (such IAEA safeguards are hence known as NPT-type fullscope safeguards).

B. Nuclear exports can go forward only to those states (both non-nuclear and nuclear weapon states) which have undertaken to accept in a formal agreement a number of additional requirements designed to minimize the proliferation risk associated with Canadian nuclear exports. These requirements are:

- i) an assurance that Canadian-supplied nuclear items (nuclear material, heavy water, nuclear equipment and technology) will not be used in connection with the production of nuclear explosive devices;
- ii) a provision for fallback safeguards in the event that a situation arises where the IAEA is unable to continue to perform its safeguards functions;
- iii) a control over the retransfer of Canadian-supplied nuclear items;

- iv) a control over the reprocessing of Canadian-origin spent fuel, subsequent storage of the separated plutonium and enrichment beyond 20 per cent U-235 of Canadian-origin uranium;
- v) an assurance that adequate physical protection measures will be applied.

The above requirements are applied to directly supplied nuclear items such as nuclear material, equipment, heavy water and technology. The requirements are also applied to nuclear items that are "derived" from those that are supplied and thus affect nuclear material that is produced as a result of the use of Canadian-origin nuclear material, equipment, technology or heavy water. Where applicable, the requirements are also applied to heavy water that is produced as a result of the use of Canadian-origin nuclear equipment or technology and to nuclear equipment that is derived from Canadian-origin nuclear equipment or technology.

Chronologically, Part A of the policy is the more recent component. The requirement for NPT adherence and fullscope safeguards was made by the government in December 1976. This requirement was made applicable only to "new" nuclear co-operation, that is, it did not affect commercial contracts already in place when this requirement was announced. Post-December 1976 or "new" nuclear co-operation, however, cannot occur with countries that do not meet this fundamental requirement. Part B of the policy was established by the government in December 1974 and affected all nuclear co-operation whether "old" or "new". Agreements under which nuclear co-operation was ongoing in 1974 thus had to be renegotiated.

It is worth noting that the NSG guidelines, mentioned in the preceding section, fall short of Canada's national non-proliferation policy in several ways. First, Canada advocated forcefully, but unsuccessfully, in the NSG forum for the inclusion of a requirement that recipient countries adhere to the NPT and accept the application of NPT-type fullscope safeguards. This requirement would have strengthened the NPT and would have provided positive incentive for countries engaged in, or envisaging a nuclear power program to become parties to this important international treaty. Another major difference is that Canada requires a control over reprocessing, whereas the NSG guidelines only recommend that "whenever appropriate and practicable" the supplier and recipient come to mutually agreed upon provisions. Other shadings of difference relate to controls placed over the retransfer of nuclear items to third parties.

The rationale for each of the requirements in Part B is as follows:

i) Non-explosive use commitment

For non-nuclear weapon states that already meet the requirements of Part A, this provision requires no additional commitment. It is essentially a contingency provision to be activated only if and when a state believes that it must exercise its sovereign right under Article X of the NPT to withdraw from the treaty. Such action is possible on three months' notice. In these circumstances Canada would still have the assurance that its nuclear partner would continue to observe its commitment not to use heavy water, nuclear material, equipment, or technology subject to the agreement for any nuclear explosive purpose. With regard to nuclear weapons states (e.g. the U.S.A., the U.K. and France) which are nuclear partners of Canada, inclusion of this provision in agreements reflects a political commitment by those states not to use any Canadian material, nuclear material, equipment or technology subject to those agreements in their nuclear weapons programs.

ii) Fallback safeguards

If a state should decide to withdraw from the NPT, if that treaty should fall into disrepute, or if the IAEA is for some reason no longer able to apply safeguards to a state's nuclear activities, then Canada would wish to be in a position where it can satisfy itself that the Canadian-origin nuclear material, heavy water, equipment and technology that has been transferred to that state will continue to be subject to safeguards. The aim is to continue to verify observance by that state of its commitment to non-explosive use of Canadian-supplied or derived nuclear items. Thus Canada requires continuity of safeguards coverage, or fallback safeguards.

iii) Retransfer control

Retransfer control provision serves an obvious purpose: there would be little use in Canada's having a non-proliferation and safeguards policy if a recipient country which satisfied the requirements of that policy were able to act as a middle-man and pass along Canadian-origin nuclear material, equipment or technology to third countries which did not.

iv) Reprocessing control

Canada seeks reprocessing control, not because it is opposed to reprocessing, but because it wants to be assured that any reprocessing of Canadian nuclear material would take place

as an integral part of a significant nuclear energy program and that effective technical, institutional and safeguards measures have been put into place to ensure that there is no misuse of the separated plutonium. Canada has recently developed an approach whereby this control will be implemented on a long term, predictable basis. Many of our nuclear partners see this as important for their energy security in the future. Australia, another major uranium supplier, has adopted a similar approach. Canada also requires a control over high enrichment. Light water reactors require natural uranium, which consists of two isotopes, U-238 (99.3 per cent) and U-235 (0.7 per cent), to be slightly enriched in the U-235 isotope to maintain a reaction. This enrichment is typically up to 2 per cent or 3 per cent. Very high enrichment of U-235 leads to weapons usable material. Internationally 20 per cent enrichment has been designated as a cut-off point and Canada exercises a prior consent right over enrichment beyond 20 per cent U-235. Since high enrichment for nuclear fuel cycle activities is relatively rare, the focus of attention has been on reprocessing and plutonium use.

v) Physical protection

Since all countries regard matters of physical security as falling strictly within their national jurisdiction, physical protection is a sensitive question. In implementing this requirement, Canada seeks from its nuclear partners a commitment that they will apply levels of physical protection to nuclear material which as a minimum would satisfy the recommendations of the IAEA as they are set out in document INFCIRC 225 (Rev 1).

VI Implementing Canada's Non-Proliferation Policy

One-hundred-and-fifteen states are currently party to the NPT. All are theoretically eligible for nuclear co-operation with Canada. Many, however, are developing countries which do not have nuclear energy programs now and are unlikely to have them in the future.

Canada now has nuclear co-operation agreements reflecting all its policy requirements with:

- | | |
|--|------------------------------|
| Australia | - in force March 9, 1981 |
| Euratom | |
| (Belgium, Denmark, France, FRG, Greece, Ireland, Italy, Luxembourg, the Netherlands, United Kingdom) | |
| | - in force January 16, 1978 |
| Finland | - in force August 15, 1976 |
| Japan | - in force September 2, 1980 |

Republic of Korea	- in force, January 26, 1976
Phillipines	- signed June 19, 1981, but not yet in force
Romania	- in force June 14, 1978
Sweden	- in force November 17, 1978
United States	- in force July 9, 1980

New agreements are negotiated as they become necessary through the emergence of possibilities of nuclear co-operation with other countries. For example, at the time of preparation of this paper, texts of agreements had been discussed with Mexico, Egypt and Indonesia and these texts are ready for signature.

Canada also has bilateral agreements with Spain and Argentina under which "old" nuclear co-operation is taking place. Neither country is a NPT state, however, and thus "new" nuclear co-operation is precluded until such time as these states ratify the NPT or make an equivalent commitment to non-proliferation.

Brief notes on the history of some of Canada's nuclear co-operation agreements follow:

(a) The European Community and Japan

By early 1977, agreements incorporating the requirements of Canada's 1974 policy were negotiated with Argentina, the Republic of Korea, Spain, Finland, and Sweden. However, much difficulty was experienced in securing acceptance of these conditions by some other European countries and Japan, Canada's major uranium markets. The Canadian government decided, therefore, to suspend as of January 1, 1977, all nuclear exports to those countries until they accepted Canada's requirements. This step was a demonstration of Canada's commitment to non-proliferation and of its willingness to accept the commercial consequences of its non-proliferation policy. The year 1977 was taken up with intensive negotiations with the European Community (EC) and Japan. By January 1978 agreement had been reached with Japan on a renegotiated bilateral agreement, and uranium shipments were allowed to proceed. This agreement was ratified in September 1980.

The discussions with Euratom took a different course. All the elements of Canada's 1974 policy had been negotiated by late 1977 except for that of a prior consent right over reprocessing and high enrichment. An exchange of letters between Canada and the EC in January 1978 embodied the agreement that had been reached including an interim arrangement on the reprocessing issue. The International Nuclear Fuel Cycle Evaluation (INFCE), discussed below, was

under way by then and it was recognized that a multilateral consensus on fuel cycles generally including the reprocessing question and its proliferation risks could be forthcoming. The EC and Canada agreed in the 1978 Interim Arrangement to return to the reprocessing issue once INFCE had been completed. Accordingly, new discussions on reprocessing were initiated in 1980. In December 1981, another exchange of letters took place that settled the reprocessing question. The formula that the two sides adopted comprised a description of the EC's current and planned nuclear energy program including in particular a detailed description of policy, legal and regulatory elements relevant to reprocessing and plutonium storage. On this basis, Canada agreed that nuclear material subject to the Canada-Euratom Agreement could be reprocessed and plutonium stored within the framework of the current and planned nuclear energy program as described and updated from time to time.

A similar long-term, predictable reprocessing arrangement has been arrived at with Sweden and similar arrangements are under discussion with other nuclear partners where the size and maturity of the nuclear program warrants it.

(b) India

After Canada suspended nuclear co-operation with India in 1974, it tried over the next two years to secure upgraded non-proliferation arrangements for Canadian-supplied nuclear items and facilities in India, but its efforts proved unsuccessful. As a result, Canada announced in May 1976 that it was terminating its nuclear relationship with India. The two RAPP reactors continue to be subject to IAEA safeguards. The CIRUS reactor continues to operate free of IAEA safeguards.

(c) Pakistan

Following the announcement in December 1974 of the more comprehensive non-proliferation policy, Canada entered into lengthy negotiations with Pakistan to conclude a bilateral agreement incorporating the requirements of that policy. By December 1976 it was evident that Pakistan was not prepared to meet Canada's requirements. In these circumstances, the Canadian government announced that for all practical purposes nuclear co-operation between Canada and Pakistan was at an end. The KANUPP reactor continues to be safeguarded by the IAEA.

(d) Argentina

After May 1974, Canada requested Argentina to provide a non-explosive use commitment with regard to any material,

nuclear material, equipment, facilities and technology supplied by Canada. Argentina provided this commitment in September 1974 and, as required under the December 1973 contract, concluded a safeguards agreement with the IAEA in early December 1974. However, in December 1974 the Canadian government announced its more comprehensive non-proliferation policy. As acceptance of these new requirements by countries with which Canada was engaged in nuclear co-operation was made essential for all contracts, past and future, Argentina was required to negotiate a bilateral agreement with Canada covering the Embalse contract. Such an agreement was concluded in January 1976, and in turn made it necessary to negotiate a new IAEA-Argentina safeguards agreement, a task which was completed in July 1977. This agreement covers the Embalse reactor and would apply to any future nuclear co-operation between Canada and Argentina. In the midst of this process, Canada announced in December 1976 the requirement for NPT accession or equivalent and the application of fullscope safeguards. While Canada has demonstrated its willingness to co-operate further with Argentina in a broad range of nuclear matters, Argentina has to date not been prepared to make the necessary political commitment to non-proliferation or accept NPT-type fullscope safeguards. Canada continues to fulfil its obligations under the December 1973 contract between Atomic Energy of Canada Ltd. and Comision Nacional de Energia Atomica but Argentina has been advised that no further nuclear co-operation can take place until Argentina fully meets Canada's non-proliferation policy requirements.

(e) Korea

In 1975, AECL concluded negotiations for the sale to the Republic of Korea of one CANDU reactor, including the technology necessary for its construction and operation. As required, a bilateral nuclear co-operation agreement incorporating non-proliferation requirements was concluded in January 1976. Korea acceded to the NPT in April 1975 and in November 1975 concluded a NPT-type safeguards agreement with the IAEA. Therefore Korea meets the requirements of Canada's policy. Construction of the Wolsung reactor is now nearing completion.

(f) Romania

Romania acceded to the NPT in 1970 and concluded a NPT-safeguards agreement with the IAEA in 1972. Moreover, in October 1977 Romania and Canada negotiated a bilateral nuclear co-operation agreement, which was ratified in June 1978. Romania, therefore, meets the requirements of Canada's policy. AECL and the Romanian state trading corporation, Romenergo, have signed contracts for two reactors.

VII The IAEA Safeguards System

The IAEA is authorized under Articles III.A.5 and XII of its Statute to establish a system of safeguards to ensure that "assistance provided by it or at its request or under its supervision or control is not used in such a way as to further any military purpose". Since its creation in 1957, the Agency, in co-operation with its member states, has worked steadily to improve the effectiveness of its safeguards operations established under those articles of its Statute. Canada supports this activity fully because Canada's bilateral agreements call for IAEA safeguards to be applied to Canadian-origin nuclear items transferred pursuant to these agreements.

While the Agency's Statute provides that it will apply safeguards to ensure as far as it can that no military objective will be fulfilled, the purpose of the application has been extended. The IAEA has stated that it interprets this undertaking as including the development, manufacture or testing of nuclear explosive devices of any kind.

The objective of IAEA safeguards is the timely detection of diversion of significant quantities of nuclear material from peaceful nuclear activities to the manufacture of nuclear weapons or other nuclear explosive devices or for purposes unknown, and deterrence of such diversion by the risk of early detection.

The basic approach of the IAEA to achieving this objective consists of the following main elements:

- a) The examination by the IAEA of information that is provided by the state. Such information includes accounting reports, special reports and advance notification of international transfers.
- b) The collection of information by the IAEA through inspections of various kinds. Information obtained through inspections is compared with that provided by the state to determine the latter's completeness, accuracy and validity.
- c) The monitoring of the flow of nuclear material in nuclear facilities through the use of various kinds of instruments and other techniques at certain strategic points. These are generally referred to as "surveillance and containment" measures. Equipment used for this purpose includes cameras, closed circuit TV, seals.
- d) Independent verification by the Agency of the entire accounting for nuclear material subject to safeguards using chemical analysis and non-destructive measurements.

In general, the existence of a domestic accountancy and control system is a prerequisite to the application of efficient international safeguards, although of course a national accounting system by itself cannot replace the international safeguards applied by the IAEA.

In 1980, the IAEA employed some 150 inspectors who made about 500 visits to plants and scanned about six million photographs taken by sealed automatic cameras and affixed some three million seals.

As stated above, the objective of the Agency's safeguards operations is to detect diversion to any unknown use. If diversion conditions or non-compliance with a safeguards agreement is detected, the Director General of the IAEA informs the Agency's Board of Governors. The Board of Governors then calls upon the state concerned to remedy the non-compliance and may depending on the gravity of the situation also report to all members of the Agency and to the Security Council and General Assembly of the United Nations (Article XII.C of the IAEA Statute). The key point, however, is that it is the international response to the reported diversion or non-compliance that is considered to be the ultimate deterrent.

Canada has been a strong supporter of the safeguards operations of the IAEA, and Canadian technical experts have participated in advisory groups, technical committees and other gatherings convened by the Agency to improve those operations. Moreover, in support of the objective of IAEA safeguards, Canada established the "Canadian Safeguards Research and Development Program" in 1978 which is designed to assist the Agency in the development of safeguards systems for CANDU reactors. The program has received a five-year budget of approximately \$11 million and work under its auspices is already well-advanced.

VIII Current International Situation

As previously mentioned, 115 countries have acceded to the NPT and the major nuclear suppliers have agreed to certain minimum guidelines governing their nuclear exports. Furthermore, significant resources have been made available to improve the operation of the IAEA's safeguards system. However, there continues to be a general acknowledgment that the current non-proliferation régime is not without its faults and weaknesses. Improvements are necessary and several recent international discussions have focused on this objective. These include:

1) The International Nuclear Fuel Cycle Evaluation
(INFCE)

INFCE was an international technical evaluation carried out between October 1977 and February 1980. The evaluation, in which 46 countries and five international organizations participated and which resulted in eight Working Group Reports and a Summary and Overview Report totalling 1 600 pages, was not a political negotiation (no treaty or agreed upon arrangements could be formulated in INFCE) and its results or findings were merely to be transmitted to governments for their consideration. Three basic elements provided the focus for the study. The participants:

"were conscious of the urgent need to meet the world's energy requirements and that nuclear energy for peaceful purposes should be made widely available to that end;

were convinced that effective measures can and should be taken at the national level and through international agreements to minimize the danger of the proliferation of nuclear weapons without jeopardizing energy supplies or the development of nuclear energy for peaceful purposes;

recognized that special consideration should also be given to the specific needs of and conditions in developing countries".

In the end, INFCE recognized the general principle that assurances of supply and assurances of non-proliferation are complementary and identified nine "fundamental matters the relevance, importance and acceptability of which should be considered" in common approaches to establishing assurances of non-proliferation. These were:

- "a) undertakings on the peaceful uses of nuclear materials, equipment and technology and verification of these;
- b) undertakings not to develop or acquire nuclear weapons or nuclear explosive devices;
- c) undertakings not to acquire, manufacture or store nuclear weapons or to help any country to do so;
- d) undertakings with respect to the application of IAEA safeguards, including the requirements for nuclear materials accountancy and control and the implementation of any eventual IAEA system for storage of excess plutonium;

- e) adequate levels of physical protection;
- f) conditions governing the establishment and operation of certain stages of the nuclear fuel cycle and the management of their associated materials, including those stages based on international or multinational institutions or on national enterprises that fulfil a set of internationally or multilaterally agreed upon obligations;
- g) duration of non-proliferation undertakings and controls;
- h) sanctions and other measures to be applied in the case of a breach of non-proliferation arrangements;
- i) undertakings regarding transfer and retransfer of supplied materials, equipment and technology, and their multilabelling and safeguards contamination implications".

2) The second NPT review conference

This conference was convened in August 1980 to "review the operations of this treaty with a view to assuring that the purposes of the preamble and the provisions of the treaty are being realized". The conference failed to reach agreement on a final document. Debate on the "peaceful uses of nuclear energy/non-proliferation and safeguards" articles of the treaty was highly emotional. The developing countries claimed that the national non-proliferation and safeguards policies of the nuclear suppliers went beyond the NPT, were being imposed unilaterally on them, and were preventing them from enjoying the benefits of the peaceful uses of nuclear energy. These allegations were countered by the major suppliers, and in the last days of the conference the participants were finally able to reach agreement on a text for inclusion in a final document of the conference. No final document was adopted, however, because of the dissatisfaction of the non-aligned countries over the lack of progress in arms control and nuclear disarmament.

3) Committee on Assurances of Supply

Following the conclusion of INFCE in February 1980, and in anticipation of the debate expected on non-proliferation/peaceful uses issues at the Second NPT Review Conference, the IAEA's Board of Governors adopted in June 1980 a resolution establishing a Committee on Assurances of Supply to look into ways in which the supply of nuclear technology, materials and services could be improved consistent with a set of mutually acceptable non-proliferation considerations.

4) International plutonium storage

This represents an attempt to establish a scheme in which plutonium will be deposited in an international depository until it is required for nuclear energy production. The international discussions have shown that there are technical and political complexities that will need to be resolved before a viable scheme could emerge.

5) The UN Conference on Peaceful Uses of Nuclear Energy

In 1983, a UN Conference on the Peaceful Uses of Nuclear Energy will be convened. In these discussions attention may well focus on the "North-South" aspects of nuclear energy (e.g. technical assistance; training; codes of conduct; technology transfers; etc.) but the nature of the non-proliferation and safeguards framework within which international nuclear co-operation should take place will also be discussed. The latter discussions will probably continue to be difficult and a major effort will be needed to try to ensure that a more effective and comprehensive international non-proliferation régime will be the result or, at the minimum, that the elements of the current régime will not be weakened.

IX Conclusion

Canada's non-proliferation and safeguards policy has two objectives: 1) to promote the emergence of a more effective and comprehensive international non-proliferation régime; and 2) to assure the Canadian people and the international community that Canadian nuclear exports will not be used for any nuclear explosive purpose. By emphasizing the key role of the NPT, by promoting reliance upon and improvements in the IAEA safeguards system, by treating nuclear weapon and non-nuclear weapon states alike regarding Canadian nuclear exports, by working for new approaches covering the sensitive phases (e.g. reprocessing) of the nuclear fuel cycle, Canada's policy promotes attainment of the first objective. The latter objective is served through the network of bilateral nuclear agreements that Canada has put into place with its nuclear partners. Those agreements provide assurance that Canada's nuclear exports are used solely for legitimate, peaceful, nuclear energy production purposes.

At the same time, Canada, having formulated its non-proliferation and safeguards policy during the period 1945 to 1980, has recognized that it has gone as far as it can on its own in this field and that from this point on any further changes should be made on the basis of international

agreement. The Canadian objective in post-INFCE forums such as the Committee on Assurances of Supply is to exert Canada's best efforts to persuade the international community to devise a more effective and comprehensive international non-proliferation régime into which Canada and other suppliers might subsume their national requirements.

Canada

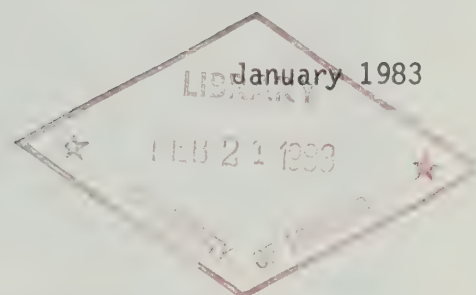
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Canadian Foreign Policy

TEXTS

83/1

RELATIONS BETWEEN CANADA AND THE USA



The Magnitude and Complexity of the Relationship

No other two countries in the world have so complex and extensive a relationship as Canada and the United States. They are each other's largest supplier and customer. They co-operate in the defence of the North American continent and, through the North Atlantic Treaty Organization, Western Europe as well. They share and manage an environment along an 8 891-kilometre border. Canadians and Americans are linked by countless personal, family, academic, cultural, professional business and trade union ties. The two countries are each other's largest source and destination of tourists, with some 73 million border crossings in 1981. The bilateral relationship is based on abiding friendship and mutual benefit and in many respects sets the standard for the civilized conduct of international relations.

Management of the Relationship

Although most contacts between Americans and Canadians take place outside the government sphere, management at that level is essential to the harmony of the relationship. The Prime Minister and the President play the central roles in this management and are assisted by their respective Cabinet colleagues and their officials. Deputy Prime Minister and Secretary of State for External Affairs Allan MacEachen and Secretary of State George Shultz, during the latter's visit to Ottawa on October 24-25, agreed that they would meet regularly to give personal direction to the management of the bilateral relationship.

The embassies and diplomatic services of the two countries are the principal channels of communication on policy matters. Bilateral agreements, arrangements and understandings

**External Affairs
Canada**Domestic Information
Programs Division**Affaires extérieures
Canada**Direction des programmes
d'information au Canada

cover a vast array of subjects. Crossborder regional relations are also close between Canadian provinces and American states within their areas of jurisdiction.

Canadian Representation in the USA

In addition to the embassy in Washington, Canada maintains 14 consulates-general in the USA (Atlanta, Boston, Buffalo, Chicago, Cleveland, Dallas, Detroit, Los Angeles, Minneapolis, New Orleans, New York, Philadelphia, San Francisco, Seattle). The consulates-general represent Canada in their territories and implement general relations, trade, immigration, tourism, consular and cultural programs. Several Canadian provinces maintain non-diplomatic offices in the USA.

Trade

In 1981 two-way trade totalled almost \$110 billion (Cdn.). The value of Canadian exports to the USA was \$55.5 billion (Cdn.), about two-thirds of total Canadian exports. Canadian imports from the USA were valued at \$54.3 billion (Cdn.) or about 17 per cent of all US exports. The USA sells almost as much to Canada as to the entire European Community and almost twice as much as to its next largest single trading partner, Japan. Almost 70 per cent of all Canadian imports come from the USA. The scale of this economic interdependence means that economic policies in one country can have a significant impact on the other.

Full implementation of the results of the Multilateral Trade Negotiations will substantially benefit bilateral trade. It is estimated that by 1987 over 90 per cent of Canadian exports will enter the USA at tariffs of 5 per cent or less and almost 80 per cent duty-free. The agreements reached on such non-tariff measures as subsidies, countervailing duties and product standards should serve to make market access between Canada and the USA more secure. Similarly, the strengthened General Agreement on Tariffs and Trade (GATT) dispute settlement procedures should provide means to resist protectionist pressures, as should the efforts to reinforce and extend the multilateral trading system that will be undertaken following the ministerial level meeting of the GATT Contracting Parties in November.

Nonetheless, increasing US federal and state "Buy America" legislation and small business set-aside programs have been a source of concern in Canada for their restrictive effect on access to the US market. US International Trade Commission investigations of Canadian potato and lumber exports to the USA have been sending protectionist signals to Canada. The US lumber industry has since filed the largest countervailing duties petition in US history. Other sources of Canadian concern are proposals to further restrict uranium imports into the USA; extraterritorial assertions of US jurisdiction such as the oil and gas sanctions imposed in June; the continuation of the Domestic International Sales Corporation (DISC), which has been found to be contrary to

US GATT obligations; a number of narrow "reciprocity" bills before Congress, one of which was passed and disrupted the cross-border trucking trade by discriminating against Canadian carriers; a US embargo on the import of specialty metals for defence purposes; and a domestic auto content bill before Congress that would effectively undermine the Auto Pact. Recent positive developments in Canada-US trade relations have been the lifting of the US oil and gas sanctions; the lifting of the US moratorium on Canadian truckers' applications for authority to operate in the USA; and the defeat in Congress of legislation that would have seriously restricted US uranium imports from Canada.

Canada and the USA enjoy a free trade arrangement in the automotive sector under the Auto Pact signed in 1965. In 1981, bilateral automotive trade reached \$27 billion or one quarter of total two-way trade. However, this sector traditionally poses problems for Canada. Canada experienced a deficit of over \$3 billion (Cdn.) in 1979, over \$2 billion in 1980 and \$1.7 billion in 1981 in automotive trade with the USA. (Statistics Canada, customs basis). While Canada normally has a surplus in assembled vehicles trade, the over-all deficit and the growing deficit in the high technology, skill-intensive parts sector is cause for concern in Canada.

Investment

Canada and the USA are the foremost destination for each other's foreign investment. The USA has about \$95 billion (Cdn.) in direct and portfolio investment in Canada, and Canada has an estimated \$22 billion (Cdn.) in the USA. Other foreign direct and portfolio investment in Canada is estimated at \$35 billion (Cdn.), for a total of \$130 billion (Cdn.). Some 80 per cent of all foreign direct investment in Canada is of US origin, controlling about 24 per cent of Canadian industry. Canadians account for about 15 per cent of all foreign direct investment in the USA, controlling less than .5 per cent of US non-financial industries. By sector the comparative Canadian and US situations are as follows:

Canada

(Source: Statistics Canada, data to end of 1979, based on asset values)

	<u>% of Industry Foreign Controlled</u>	<u>% of Industry US Controlled</u>
Mining	38.3	30.1
Oil and gas	62.7	47.4
Total manufacturing	45.6	34.1
Rubber industry	90.4	68.6
Transportation equipment	73.4	68.4
Chemicals industry	76.5	59.4

	<u>% of Industry Foreign Controlled</u>	<u>% of Industry US Controlled</u>
Electrical equipment	60.0	47.5
Heavy machinery	55.4	46.7
Textiles	55.6	43.9
Metal fabricating	36.5	29.2
Pulp and paper	38.6	30.5

Note: The Petroleum Monitoring Agency of the Department of Energy, Mines and Resources considers data based on upstream production revenues to be a more accurate indicator of foreign ownership and control in the oil and gas sector. On this basis, foreign control was 79.5 per cent in 1979 and 77.7 per cent in 1980 (U.S. control 64.1 per cent)

USA

(Source: US Department of Commerce, data to end of 1974)

	<u>% of Industry Foreign Controlled</u>
Agriculture, forestry and fish	0.5
Mining	5.0
Oil and gas	18.0
Manufacturing	3.0
Construction	0.5
Transportation, communications and public utilities	1.0
Wholesale trade	3.0
Retail trade	1.0

The costs and benefits of the high degree of foreign control of the Canadian economy have been the subject of national debate in Canada at least since the late 1950s. As a result of this debate, and the studies and concerns it generated, the Foreign Investment Review Agency (FIRA) was established in 1974. The US private sector and, more recently, the US government have expressed concern about certain aspects of FIRA's operations such as trade-related aspects of certain undertakings offered to FIRA, and delays in the review process. With regard to the former, Canada and the USA have agreed to the examination of certain FIRA practices by a GATT panel. On the latter, a number of administrative measures have been taken by FIRA which have resulted in a significant improvement in processing time. These measures include raising the qualifying ceiling for the simplified small business procedures, the issuance of interpretation bulletins and providing binding opinions as to reviewability under the Act. These changes are consistent with Canada's desire to streamline the administration of the FIR Act while preserving its intent, which is to ensure that foreign direct investment in Canada brings benefit to Canadians.

Although foreign investment levels in the USA are very modest in comparison to Canada's, the USA has taken measures which it considers to be in its own national interest to restrict or regulate foreign investment in certain sectors of the economy, such as coastal shipping, aviation, broadcasting, telecommunications and nuclear and hydro power generating facilities. Many states have restrictions on foreign investment in specific sectors. Apart from outright prohibitions, the USA also has indirect controls on foreign investment, including anti-trust laws, congressional lobbying and monitoring by such bodies as the Committee on Foreign Investment in the United States.

Energy

Energy issues continue to be an important focus of national and international attention and to figure prominently in Canada-USA relations. While both countries are pursuing their respective domestic programs, there is a continuous process of consultation and co-operation in areas of mutual benefit.

The Canadian government's basic energy policy is set out in its National Energy Program of 1980. This comprehensive program is designed to restructure Canada's energy system. The goals are self-sufficiency in oil by 1990, an equitable sharing of energy benefits and burdens among Canadians, a higher level of Canadian ownership and control of the energy sector, an expanded role for the public sector in oil and gas, and greater industrial benefits from energy development. It provides a blueprint to end Canada's dependence on imported oil and to right a system which, if continued, would work against increased Canadian participation in the energy sector and favour the largest, mostly foreign-owned petroleum companies. In 1979, for example, 72 per cent of the revenues of the oil and gas industry went to foreign-owned companies at a time when the industry was claiming an ever rising share of the nation's wealth. This program continues to provide foreign investors with terms that compare favourably with those available in most other producing countries and strong incentives for exploration and development.

Canada, like the USA, must import oil to meet its domestic needs. At the same time, Canada produces significant surpluses in other forms of energy including natural gas, heavy oil and electricity, which are exported to the USA. These exports are not large compared to total US consumption, but earned Canada about \$10.5 billion in 1981 while serving as important and reliable sources of supply in certain US markets.

There are numerous other areas of bilateral co-operation. For example, the Northern Gas Pipeline. Construction of the southwestern and southeastern segments are complete. Both segments will be used to export some of the current Alberta natural gas surplus until the northern segments are completed and Alaska gas begins to be transported through the pipeline to US markets.

In 1979, the two countries published a joint study on electricity exchanges identifying opportunities for increased trade. They also signed an understanding on tar sands and heavy oil research and development in which the provinces of Alberta and Saskatchewan are full participants. Under the terms of this Memorandum of Understanding, in October 1982 an agreement between the US Department of Energy and the Alberta Oil Sands Technology and Research Authority to co-operate on a \$1.2 million project to research heavy oil recovery was signed. In August 1982 the Department of Energy and Atomic Energy of Canada Limited signed an agreement on co-operation in research into radioactive waste management.

Since 1975, oil has been swapped across the border to maintain some supplies to certain US refineries while saving on oil transportation costs. Utilities in both countries are now looking into the possibilities of further co-operation in base-load electricity exports from Canada and, as members of the National Electric Reliability Council, into co-ordinated responses to energy-related emergencies.

Canada also co-operates closely with the USA and other nations on international energy questions and related financial issues in multi-lateral organizations, notably the International Energy Agency.

Environment

Canada assigns high priority to the close monitoring and resolution of transboundary environmental problems, which are of great public concern on both sides of the border. The 1909 Boundary Waters Treaty forms the basis of the water resource management and environmental relations between Canada and the USA.

There are frequent bilateral consultations and negotiations on a wide variety of projects relating to the transboundary environment. An active and valuable role is played by the International Joint Commission (IJC), established by the Boundary Waters Treaty. The IJC has certain regulatory functions and at government request, undertakes special studies and makes recommendations.

Under an August 5, 1980 Memorandum of Intent the two governments agreed to develop a co-operative agreement to reduce transboundary air-borne pollutants. This problem, and particularly the phenomenon known as acid rain, has been identified as a major threat to large areas in both countries. Formal negotiations began in June 1981 and there have been three subsequent sessions, in November 1981, February 1982 and June 1982. At the February session Canada announced that it was prepared to undertake a reduction in sulphur dioxide emissions in eastern Canada of 50 per cent by 1990, contingent on parallel action by the United States. At the June 1982 meeting, the US side described the Canadian proposal as premature and called instead for more research.

In order to attempt to break the present impasse Secretary of State George Shultz and Secretary of State for External Affairs Allan MacEachen agreed at their meeting in Ottawa of October 25, 1982 to have officials prepare papers outlining the two sides' respective positions on the state of the science (US) and alternative abatement actions and costs (Canada). The papers were to be completed by the end of 1982.

Pursuant to the 1982 and 1978 Great Lakes Water Quality Agreements, Canada and the USA have committed themselves to take specific measures which will eliminate or reduce to the maximum extent practicable the discharge of pollutants into the Great Lakes system. Both countries have had a great deal of success in recent years in controlling the eutrophication (aging) of the Lakes through the progressive reduction of the amount of phosphorous discharged into them. However, the current major bilateral concern relates to the presence of hazardous and toxic substances in the water, fish and sediments of the Lakes, especially Lakes Erie and Ontario. This problem is especially acute in the Niagara River area where most of these pollutants originate from industries and waste sites located on the US side. Canada has been strenuously pursuing this matter with US authorities in an effort to develop better bilateral means to ensure that Canadian concerns over this situation are fully taken into account by the USA as they act to clean up the problem areas. Some success has been registered in this, but more remains to be done.

Another major issue is the Garrison Diversion project in North Dakota, which if completed would cause significant injury to health and property in Canada, including Manitoba's fishing industry. Other subjects of continuing interest are tanker traffic on the West Coast, and the tanker traffic that would be associated with a proposed oil refinery at Eastport, Maine; and the proposed flooding of the Skagit Valley in British Columbia by a US utility company.

Defence Relations

Very close co-operation between Canada and the USA during the Second World War established a lasting pattern of joint defence planning. The Permanent Joint Board on Defence, established by the Ogdensburg Agreement of 1940, ensures continuous consultation at the policy planning level on bilateral defence matters. Canada and the USA are founding members of the North Atlantic Treaty Organization. The North American Aerospace Defence Command (NORAD) Agreement between Canada and the USA has, since 1958, provided for joint command of the air defence of North America. The Agreement was renewed for five years on March 11, 1981, during the visit of President Reagan to Ottawa. Bilateral discussions continue on plans to modernize North American aerospace defences. Negotiations also continue towards a weapons-testing agreement.

The Canada-USA Defence Development and Defence Production Sharing Arrangements (DD/DPSA) are designed to ensure the maintenance of

a long-term balance in reciprocal procurement of defence items and to utilize the industrial, scientific and technological resources of both countries in the interests of continental defence. During his visit to Ottawa last March, President Reagan reaffirmed with Prime Minister Trudeau the importance the two countries attach to the Arrangements as the basis for co-operation in the defence economic field.

Fisheries and Maritime Boundaries

In January 1977, Canada extended its fisheries jurisdiction to 200 miles; the US 200-mile zone came into force in March of that year. The two claims overlapped. It then became necessary to establish a new bilateral framework for fisheries management and co-operation, as well as to delimit the maritime boundaries off the East Coast, in the Strait of Juan de Fuca and Dixon Entrance in the Pacific, and in the Beaufort Sea in the Arctic.

On August 1, 1977 the two governments appointed special negotiators to recommend a resolution of these issues. After 18 months of negotiations, agreement was reached on fisheries management and maritime boundary settlement procedures for the East Coast. Treaties were signed in Washington, D.C. on March 29, 1979. Negotiations on the other three maritime boundaries have been in abeyance pending final determination of the East Coast boundary.

One of the treaties signed in March 1979 provided for the submission of the East Coast boundary dispute to adjudication by the International Court of Justice. It was directly linked to the fisheries treaty, which provided for co-operative management of, and entitlements to, East Coast fish stocks. For two years, the US Senate did not act on the treaties. In March 1981, the Canadian government expressed its profound disappointment when the Administration concluded that the fisheries treaty would not receive Senate consent for ratification and withdrew it. On November 20 the two countries nevertheless exchanged instruments of ratification to bring the "de-linked" maritime boundary treaty into force.

US fishery conservation and management in the disputed area of Georges Bank continues to be less effective than necessary. The USA's adoption of its first-ever scallop management plan represents some progress, after much increased US effort had brought the resource in the area to a critical state. At the same time, however, the USA is greatly relaxing its management of the Georges Bank groundfish fishery.

In West Coast fisheries, progress has been made as discussions continue towards a comprehensive salmon interception agreement. In July 1981, Canada and the USA ratified a treaty providing for reciprocal fishing of albacore tuna off the Pacific coast and for reciprocal landing rights at designated ports.

Taxation

A Canada-US Double Taxation Convention was signed in 1980 but has not yet been ratified by the US Senate. One issue delaying ratification concerns the treatment of real property capital gains. Further bilateral negotiations toward amendments which would bring the Convention into closer alignment with US domestic law will be required.

Extraterritoriality

A cause of irritation between Canada and the USA is the assumption of jurisdiction by US government and regulatory agencies over persons, property and events in Canada. Examples of US attempts to exercise extraterritorial jurisdiction within the past two years include: the Inter-State Commerce Commission's efforts to deregulate US railways in a way that could adversely affect Canadian railways in Canada; proposals to have the Federal Maritime Commission regulate Canadian shipping between Canada and third countries when US cargo or ports are involved; and the US oil and gas sanctions imposed by President Reagan against the Soviet Union. In this latter case the USA has sought to extend its economic sanctions against the USSR through extraterritorial controls on the export of oil and gas field equipment and technology by third countries to the USSR. While the impact of the sanctions has been primarily on Europe, Canada has as a matter of principle voiced its opposition to this assertion of US jurisdiction over Canadian companies.

Although a number of out-of-court settlements were reached last year, the anti-trust litigation in US courts launched by US private parties against Canadian and other uranium producers has raised serious concerns for Canada. The Canadian government maintains that in this case the actions of Canadian companies, which were taken outside the USA, and required by Canadian law and policy, should not be reviewed by US courts. Legislation (Bill C-41) introduced in Parliament in the summer of 1980 and aimed at protecting Canadian citizens and corporations from the effects of assertions of extraterritorial jurisdiction by foreign tribunals has been withdrawn for review. It is expected that the Bill will be re-introduced in the near future.

Communications

The Canada-US relationship in the field of communications is the most complex and sophisticated between any two countries. Operational agreements between Canadian and US telecommunications carriers govern transborder telephone, telex, and data traffic and new technologies such as satellite and computer communications will probably be accommodated through similar arrangements. Relations are characterized by a high degree of co-operation and close co-ordination. However, the different communications policies in the two countries (i.e. the US "open skies and free market" compared to the more "regulated, culturally sensitive" Canadian approach) have given rise to some areas of disagree-

ment. Where these occur, they often reflect the different economic, political and social circumstances in each country.

One such example is the border broadcasting issue. Canadian stations, subject to Canadian content and other Canadian regulations, were having to compete with American stations not subject to such regulations. In 1976 the Canadian Income Tax Act (Section 19.1) was amended so as to ensure the viability of the Canadian broadcasting industry by giving a tax advantage to the Canadian advertising industry for using Canadian television stations to reach Canadian audiences. As a result of pressure from a number of US television stations near the border, the US administration submitted tax legislation to Congress which would mirror the effects of Section 19.1. A hearing on this proposed legislation was held in May but it has not yet been introduced on the Senate floor. Section 19.1 remains an important element of Canadian policy and there are no plans to change it.

CANADA-USA ECONOMIC INDICATORS

GNP

	<u>Canada</u> (Cdn current \$ billions)	<u>USA</u> (US current \$ billions)
1977	208.9	1 918.0
1978	230.4	2 156.1
1979	262.0	2 413.9
1980	289.9	2 626.1
1981	340.8	2 925.5

CANADIAN TRADE

	<u>TOTAL</u> (Statistics Canada on custom basis; in \$ millions Cdn)		<u>WITH USA</u> (CDA/USA reconciled statistics; in \$ billions US)	
	<u>Exports</u> (incl re-exports)	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
1978	53 182.8	50 107.7	33.1	30.3
1979	65 641.3	62 870.7	38.5	37.9
1980	75 963.9	69 127.7	42.0	40.7
1981	83 698.4	78 875.9	n/a	n/a

PERCENTAGE CHANGE

	<u>TOTAL</u> (customs basis)		<u>WITH USA</u> (customs basis)	
	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
1978	+ 19.2	+ 18.4	+ 20.1	+ 18.7
1979	+ 23.4	+ 25.5	+ 19.2	+ 28.6
1980	+ 15.7	+ 10.0	+ 7.9	+ 6.5
1981	+ 10.2	+ 14.1	+ 15.4	+ 12.0

DISTRIBUTION OF EXPORTS (% in 1981)

	<u>Canada</u>	<u>USA</u>
Canada	-	17
USA	66	-
Japan	5	9
EEC	11	22

DISTRIBUTION OF IMPORTS (% in 1981)

	<u>Canada</u>	<u>USA</u>
Canada	-	18
USA	69	-
Japan	5	14
EEC	8	16

TOP TEN CANADIAN IMPORTS TO USA

1. Passenger autos and chassis
2. Natural gas
3. Newsprint paper
4. Motor vehicle parts, except engines
5. Trucks, truck tractors and chassis
6. Crude petroleum
7. Petroleum and coal products
8. Wood pulp and similar pulp
9. Lumber, softwood
10. Precious metals

TOP TEN US EXPORTS TO CANADA

1. Motor vehicle parts
2. Passenger autos and chassis
3. Electronic computers
4. Motor vehicle engines
5. Trucks, truck tractors and chassis
6. Crude petroleum
7. Aircraft
8. Precious metals
9. Coal
10. Other metals in ores, concentrates, etc.

1981 CURRENT ACCOUNT - USA

		\$ Millions
Merchandise trade balance		2 782
Services transactions:		
Travel	- 734	
Interest and dividends	- 5 452	
Freight and shipping	- 419	
Other service transactions	- 5 010	
Balance on service transactions		- 11 615
Balance on goods and services		- 8 833
Net transfers		135
TOTAL CURRENT ACCOUNT BALANCE		- 8 698

PRICES & COSTS (% Change)

	<u>CPI-CDA</u> (% Change)			<u>CPI-USA(yr to yr)</u> (% Change)		
	<u>Total</u>	<u>Food</u>	<u>Non-food</u>	<u>Total</u>	<u>Food</u>	<u>Non-food</u>
1977	8.0	8.3	7.9	6.5	6.3	6.5
1978	8.9	15.5	6.4	7.7	10.0	7.2
1979	9.1	13.2	7.9	11.3	10.9	11.4
1980	10.2	10.7	10.0	12.4	10.2	12.9
1981	12.5	11.4	12.8	8.9	4.3	9.9

EMPLOYMENT

	<u>Unemployment Rate/CDA</u>	<u>Unemployment Rate/USA</u>
1976	7.1	7.7
1977	8.1	7.0
1978	8.4	6.0
1979	7.5	5.8
1980	7.5	7.1
1981	7.6	n/a

CDN DOLLAR IN US CENTS

1977	94.10
1978	87.72
1979	85.38
1980	85.54
1981	83.42

FOREIGN INVESTMENT (latest Statistics Canada estimates in Canadian dollars)

US direct investment in Cda	\$50 billion (end of 1981 cumulative)
US portfolio investment in Cda	\$46 billion (end of 1981 cumulative)
Canadian direct investment in USA	\$16 billion (end of 1981 cumulative)
Canadian portfolio investment in USA	\$6 billion (end of 1981 cumulative)

BORDER CROSSINGS (millions)

	<u>Canada to USA</u>	<u>USA to Canada</u>
1977	37.9	31.8
1978	37.3	31.6
1979	34.4	31.2
1980	34.7	38.5
1981	33.6	39.8

POPULATION (millions)

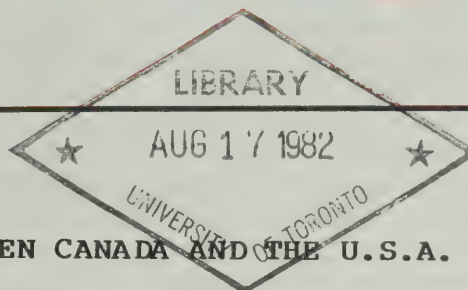
	<u>Canada</u>	<u>USA</u>
1981	24.1	230.5

Canada

Canadian Foreign Policy

TEXTS

82/6



July 1982

RELATIONS BETWEEN CANADA AND THE U.S.A.

The Magnitude and Complexity of the Relationship

No other two countries have so complex and extensive a relationship as Canada and the United States. They are each other's largest supplier and customer. They co-operate in the defence of the North American continent and through the North Atlantic Treaty Organization, Western Europe as well. They share and manage an environment along a 9000 kilometre border. Canadians and Americans are linked by countless personal, family, academic, cultural, professional, business and trade union ties. The two countries are each other's largest source and destination of tourists, with over 73 million border crossings in 1981. The bilateral relationship is based on abiding friendship and mutual benefit and, in many respects, sets the standard for the civilized conduct of international relations.

Management of the Relationship

Although most contacts between Americans and Canadians take place outside the government sphere, management at that level is essential to the harmony of the relationship. The Prime Minister and the President, who are the central figures in this management, are assisted by their respective Cabinet colleagues and officials. The embassies and diplomatic services of the two countries are their permanent representatives and their principal channels of communication on policy matters. Bilateral agreements, arrangements and understandings cover numerous subjects. Cross-border regional relations are also close between Canadian provinces and American states within their areas of jurisdiction.

External Affairs
CanadaDomestic Information
Programs DivisionAffaires extérieures
CanadaDirection des programmes
d'information au Canada

Canadian Representation in the USA

In addition to the embassy in Washington, Canada maintains 14 consulates-general in the USA (Atlanta, Boston, Buffalo, Chicago, Cleveland, Dallas, Detroit, Los Angeles, Minneapolis, New Orleans, New York, Philadelphia, San Francisco and Seattle). The consulates-general represent Canada in their territories and implement general relations, trade, immigration, tourism, consular and cultural programs. Several Canadian provinces maintain non-diplomatic offices in the USA.

Trade

In 1981 two-way trade totalled almost Cdn \$110 billion. The value of Canadian exports to the USA was Cdn \$55.5 billion, about two-thirds of total Canadian exports. Canadian imports from the USA were valued at Cdn \$54.3 billion or about 17 per cent of all US exports. The USA sells almost as much to Canada as it does to the entire European Community and almost twice as much as it does to its next largest single trading partner, Japan. Almost 70 per cent of all Canadian imports come from the USA. The scale of this economic interdependence means that economic policies in one country can have a significant impact on the other.

Full implementation of the results of the Multilateral Trade Negotiations will substantially benefit bilateral trade. It is estimated that over 90 per cent of Canadian exports will enter the USA at tariffs of five per cent or less and almost 80 per cent duty free. The agreements reached on such non-tariff measures as subsidies, countervailing duties, and product standards should serve to make market access between Canada and the USA more secure. Similarly, the strengthened General Agreement on Tariffs and Trade (GATT) dispute settlement procedures should provide a means to resist protectionist pressures, as should the efforts to reinforce and extend the multilateral trading system that will be undertaken in connection with the ministerial level meeting of the GATT contracting parties later this year.

Nonetheless, increasing US federal and state "Buy America" legislation and small business set-aside programs have been a source of concern in Canada for

their restrictive effect on access to the US market. US International Trade Commission investigations of Canadian potato and lumber exports to the USA have been sending protectionist signals to Canada. Other sources of concern are: the proposal to further restrict uranium imports into the USA; the continuation of the Domestic International Sales Corporations (DISC) which has been found to be contrary to US GATT obligations; a number of narrow "reciprocity" bills now before Congress, one of which, if passed, would disrupt cross-border trucking trade by discriminating against Canadian carriers; and a bill which would divert maritime cargo from Canadian to US ports.

Canada and the USA have a free trade arrangement in the automotive sector under the auto pact signed in 1965. In 1981 bilateral automotive trade reached \$22 billion, or one quarter of total two-way trade. However, this sector poses problems for Canada. Canada experienced a deficit of over Cdn \$3 billion in 1979 and over \$2 billion in 1980 and \$1.7 billion in 1981 in automotive trade with the USA (Statistics Canada, customs basis). While Canada normally has a surplus in assembled vehicles trade, the over-all deficit and the growing deficit in the high technology, skill-intensive parts sector is cause for concern.

Investment

Canada and the USA are the foremost destination for each other's foreign investment. The USA has about Cdn \$70 billion in direct and portfolio investment in Canada, and Canada has an estimated Cdn \$13 billion in the USA. Other foreign investment in Canada is estimated at Cdn \$26 billion, for a total of Cdn \$96 billion. Some 80 per cent of all foreign direct investment in Canada is of US origin, controlling about 24 per cent of Canadian non-financial industries. Canadians account for 15 per cent of all foreign direct investment in the USA, controlling less than .5 per cent of US non-financial industries. By sector the comparative Canadian and US situations are as follows:

Canada

(Source: Statistics Canada, data to end of 1979), based on asset values)

	<u>% of Industry Foreign Controlled</u>	<u>% of Industry US Controlled</u>
Mining	38.3	30.1
Oil and gas	62.7	47.4
Total Manufacturing	45.6	34.1
Rubber industry	90.4	68.6
Transportation equipment	73.4	68.4
Chemicals industry	76.5	59.4
	<u>% of Industry Foreign Controlled</u>	<u>% of Industry US Controlled</u>
Electrical equipment	60.0	47.5
Heavy machinery	55.4	46.7
Textiles	55.6	43.9
Metal fabricating	36.5	29.2
Pulp and paper	38.6	30.5

Note: The Petroleum Monitoring Agency of the Department of Energy, Mines and Resources considers data based on upstream production revenues to be a more accurate indicator of foreign ownership and control in the oil and gas sector. On this basis, foreign control was 79.5 per cent in 1979 and 77.7 per cent in 1980 (US control 64.1 per cent).

USA

(Source: U.S. Department of Commerce, data to end of 1974)

	<u>% of Industry Foreign Controlled</u>
Agriculture, forestry and fish	0.5
Mining	5.0
Oil and gas	18.0
Manufacturing	3.0
Construction	0.5
Transportation, communications and public utilities	1.0
Wholesale trade	3.0
Retail trade	1.0

The effects of the high degree of foreign participation in the Canadian economy have long been the subject of national debate in Canada. A result of this historical process was the establishment of the Foreign Investment Review Agency (FIRA) in 1974. The US private sector and, more recently, the US government have expressed concern about certain aspects of its operations. Bilateral discussion has taken place within the context of the GATT and the two parties have agreed to the examination of certain FIRA practices by a GATT panel. Canada has been and remains open to discussion and explanation of its policies. However, the reasons behind the Canadian approach are fundamental - a level of foreign ownership and control in its economy which is unique among industrialized countries and a need to ensure that foreign investment brings significant benefit to the Canadian economy.

Although foreign investment levels in the USA are very modest in comparison to Canada's, the USA has itself taken measures to restrict it in certain key sectors of the economy such as coastal shipping, aviation, broadcasting, telephones and telecommunications and nuclear and hydro-power generating facilities. Many states have restrictions on foreign investment in specific sectors. Apart from outright prohibitions, the USA also has indirect controls on foreign investment, including anti-trust laws, Congressional lobbying and monitoring by such bodies as the Committee on Foreign Investment in the United States.

Energy

Energy issues continue to be an important focus of national and international attention and to figure prominently in Canada-USA relations. While both countries are pursuing their respective domestic programs, there is a continuous process of consultation and co-operation in areas of mutual benefit.

The Canadian government's basic energy policy is set out in its National Energy Program (NEP) of 1980, which is designed to restructure Canada's energy system. The goals are: to be self-sufficient in oil by 1990; achieve an equitable sharing of energy benefits and burdens among Canadians; obtain a higher level of Canadian ownership and control of the energy sector; expand the role of the public sector in oil and gas; and ensure greater industrial benefits from energy

development. The program provides a blueprint to end Canada's dependence on imported oil and to right a system which, if continued, would work against increased Canadian participation in the energy sector and in favour of the largest, mostly foreign-owned petroleum companies. In 1979, for example, 72 per cent of the revenues of the oil and gas industry went to foreign-owned companies at a time when the industry was claiming a constantly increasing share of the nation's wealth. While this program will necessarily affect multinationals operating in Canada, including US companies, it continues to provide foreign investors with terms that compare favourably with those available in most other producing countries. This is all the more so since the Alberta-federal agreement on energy pricing and taxation provides for substantially higher prices than were originally foreseen under the NEP and, therefore, strong incentives to the industry for exploration and development.

Canada, like the USA, must import oil to meet its domestic needs. At the same time, Canada produces significant surpluses in other forms of energy including natural gas, heavy oil and electricity, which are exported to the USA. These exports are not large compared with total US consumption, but earned Canada about \$9.5 billion in 1981 while serving as important and reliable sources of supply in certain US markets.

There are numerous other areas of bilateral co-operation - for example, the Northern Gas Pipeline. Construction of the south-western segment is complete and construction of the south-eastern segment is now well under way. Both segments will be used to export some of Alberta's current natural gas surplus until the northern segments are completed and Alaska gas begins to flow through the pipeline to US markets.

In 1979, the two countries published a joint study on electricity exchanges identifying opportunities for increased trade. They also signed an understanding on tarsands and heavy oil research and development in which the provinces of Alberta and Saskatchewan are full participants. Since 1975, oil has been exchanged across the border to maintain some supplies to certain US refineries while saving on oil transportation costs. Both countries are now looking into the possibilities of further co-operation in base-load electricity exports from Canada and co-ordinated responses to energy-related emergencies.

Canada also co-operates closely with the USA and other nations on international energy questions and related financial issues in multilateral organizations, notably the International Energy Agency.

Environment

Canada assigns high priority to the close monitoring and resolution of transboundary environmental problems, which are of great public concern on both sides of the border. The 1909 Boundary Waters Treaty forms the basis of the water-resource management and environmental relations between Canada and the USA.

There are frequent bilateral consultations and negotiations on a wide variety of projects relating to the transboundary environment. An active and valuable role is played by the International Joint Commission (IJC), established by the Boundary Waters Treaty. The IJC has certain regulatory functions and, at government request, undertakes special studies and makes recommendations.

Under an August 5, 1980 Memorandum of Intent, the two governments agreed to develop a co-operative agreement to reduce transboundary air-borne pollutants. This problem, and particularly the phenomenon known as acid rain, has been identified as a major threat to large areas in both countries. Negotiations to conclude a transboundary air pollution agreement began in June 1981 and are continuing. In February 1982 Canada formally proposed to reduce SO₂ emissions by 50 per cent by 1990, contingent on similar US action, in view of the scientific evidence showing acid rain to be a serious threat to the environment. The US administration take a less urgent view of this threat to the environment than does Canada.

Canada and the USA are committed to co-operative efforts to clean up the Great Lakes under the 1972 and 1978 Great Lakes Water Quality Agreements. The problem of hazardous and toxic waste disposal, particularly in the Great Lakes region, has recently become a matter of increasing concern to Canada. Several bilateral meetings have been held to discuss the issue of hazardous and toxic waste disposal in the Niagara River area. A bilateral toxic committee to monitor the river was established in 1981.

Another major issue is the Garrison Diversion project in North Dakota, which if completed would pollute the Hudson Bay watershed in Canada and endanger

Manitoba's fishing industry. Other subjects of continuing interest are tanker traffic on the West Coast, and the tanker traffic that would be associated with a proposed oil refinery at Eastport, Maine; and the proposed flooding of the Skagit Valley in British Columbia by a US utility company.

Defence Relations

Close co-operation between Canada and the USA during the Second World War established a lasting pattern of joint defence planning. The Permanent Joint Board on Defence, established by the Ogdensburg Agreement of 1940, ensures continuous consultation at the policy planning level on bilateral defence matters. Canada and the USA are founding members of NATO. The North American Aerospace Defence Command (NORAD) Agreement between Canada and the USA has, since 1958, provided for joint command of the air defence of North America. The Agreement was renewed for five years on March 11, 1981, during the visit of President Reagan to Ottawa. Bilateral discussions continue on plans to modernize North American aerospace defences.

The Canada-USA Defence Development and Defence Production Sharing Arrangements (DD/DPSA) are designed to ensure the maintenance of a long-term balance in reciprocal procurement of defence items and to utilize the industrial, scientific and technological resources of both countries in the interests of continental defence. During his visit to Ottawa in March, President Reagan reaffirmed with Prime Minister Trudeau the importance the two countries attach to the Arrangements as the basis for co-operation in the defence economic field.

Fisheries and Maritime Boundaries

In January 1977, Canada extended its fisheries jurisdiction to 200 miles; the US 200-mile zone came into force in March of that year. The two claims overlapped. It then became necessary to establish a new bilateral framework for fisheries management and co-operation as well as to delimit the maritime boundaries off the East Coast, in the Strait of Juan de Fuca and Dixon Entrance in the Pacific, and in the Beaufort Sea in the Arctic.

On August 1, 1977 the two governments appointed special negotiators to recommend a resolution

of these issues. After 18 months of negotiations, agreement was reached on fisheries management and maritime boundary settlement procedures for the East Coast. Treaties were signed in Washington, D.C. on March 29, 1979. Negotiations on the other three maritime boundaries have been in abeyance pending final determination of the East Coast boundary.

One of the treaties signed in March 1979 provided for the submission of the East Coast boundary dispute to adjudication by the International Court of Justice. It was directly linked to the fisheries treaty, which provided for co-operative management of, and entitlements to, East Coast fish stocks. For two years, the US Senate did not act on the treaties. In March 1981, the Canadian government expressed its profound disappointment when the administration concluded that the fisheries treaty would not receive Senate consent for ratification and withdrew it. On November 20 the two countries nevertheless exchanged instruments of ratification to bring the "de-linked" maritime boundary treaty into force.

US fishery conservation and management in the disputed area of Georges Bank continues to be less effective than Canada considers necessary. The USA's adoption of its first-ever scallop management plan represents some progress, after much increased US effort had brought the resource in the area to a critical state. At the same time, however, the USA is greatly relaxing its management of the Georges Bank groundfish fishery.

In West Coast fisheries, progress has been made as discussions continue towards a comprehensive salmon-interception agreement. In July 1981, Canada and the USA ratified a treaty providing for reciprocal fishing of albacore tuna off the Pacific coast and for reciprocal landing rights at designated ports.

Taxation

A Canada-US Double Taxation Convention was signed in 1980 but has not yet been ratified by the US Senate. One issue delaying ratification concerns the treatment of real estate capital gains. Further bilateral negotiations towards amendments which would bring the Convention into closer alignment with US domestic law will be held early in 1982. If agreement

is reached on these amendments, the ratification process could probably proceed fairly quickly.

Extra-territoriality

A cause of irritation between Canada and the USA is the assumption of jurisdiction by US government and regulatory agencies over persons, property and events in Canada. Examples of US attempts to exercise extra-territorial jurisdiction within the past two years include: the Federal Reserve Board's involvement in certain Canadian bank activities with other Canadian financial institutions; the Inter-State Commerce Commission's efforts to deregulate US railways in a way that could adversely affect Canadian railways in Canada; and proposals to have the Federal Maritime Commission regulate Canadian shipping between Canada and third countries when US cargo or ports are involved.

Although a number of out-of-court settlements were reached last year, the antitrust litigation in US courts launched by US private parties against Canadian and other uranium producers has raised serious concerns for Canada. The Canadian government maintains that in this case the actions of Canadian companies, which were taken outside the USA, and required by Canadian law and policy, should not be reviewed by US courts. Legislation (Bill C-41) has been introduced in Parliament aimed at protecting Canadian citizens and corporations from the effects of extra-territorial rulings by foreign tribunals.

Communications

The Canada-US relationship in the field of communications is the most complex and sophisticated between any two countries. Operational agreements between Canadian and US telecommunications carriers govern transborder telephone, telex, and data traffic and new technologies such as space and computer communications will probably be accommodated through similar arrangements. Relations are characterized by a high degree of co-operation and close co-ordination. However, the different communications policies in the two countries (i.e. the US "open skies and free market" compared to the more "regulated, culturally sensitive" Canadian approach) have given rise to some areas of disagreement. Where these occur, they often reflect

the different economic, political and social circumstances in each country.

An example is the border broadcasting issue. Canadian stations, subject to Canadian content and other Canadian regulations, were having to compete with American stations not subject to such regulations. In 1976 the Canadian Income Tax Act (Section 19.1) was amended to ensure the viability of the Canadian broadcasting industry by giving a tax advantage to the Canadian advertising industry for using Canadian border area television companies. As a result of pressure from a number of US television stations situated near the border, the US administration submitted tax legislation to Congress which would mirror the effects of Section 19.1. A hearing on this proposed legislation was held in May and its passage is expected shortly. Section 19.1 remains an important element of Canadian policy and there are no plans to change it.

CANADA/USA ECONOMIC INDICATORS

GNP

	<u>Canada</u> (Cdn current \$ billions)	<u>USA</u> (US current \$ billions)
1977	208.9	1918.0
1978	230.4	2156.1
1979	262.0	2413.9
1980	289.9	2626.1
1981	340.8	2925.5

CANADIAN TRADE

	TOTAL (Statistics Canada on customs basis; in \$ millions Cdn)		WITH USA (CDA/USA reconciled figures; in \$ billions US)	
	<u>Exports</u> (incl. re-exports)	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
1978	53182.8	50107.7	33.1	30.3
1979	65641.3	62870.7	38.5	37.9
1980	75963.9	69127.7	42.0	40.7
1981	83698.4	78875.9	n/a	n/a

PERCENTAGE CHANGE

	TOTAL (customs basis)		WITH USA (customs basis)	
	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
1978	+19.2	+18.4	+20.1	+18.7
1979	+23.4	+25.5	+19.2	+28.6
1980	+15.7	+10.0	+7.9	+6.4
1981	+10.2	+14.1	+15.4	+12.0

DISTRIBUTION OF EXPORTS (% - 1981)

	<u>Canada</u>	<u>USA</u>
Canada	-	17
USA	66	-
Japan	5	9
EEC	11	22

DISTRIBUTION OF IMPORTS (% - 1981)

	<u>Canada</u>	<u>USA</u>
Canada	-	18
USA	69	-
Japan	5	14
EEC	8	16

TOP TEN CANADIAN EXPORTS TO USA

1. Passenger autos and chassis
2. Natural gas
3. Newsprint paper
4. Motor vehicle parts, except engines
5. Trucks, truck tractors and chassis
6. Crude petroleum
7. Petroleum and coal products
8. Wood pulp and similar pulp
9. Lumber, softwood
10. Precious metals

TOP TEN US EXPORTS TO CANADA

1. Motor vehicle parts
2. Passenger autos and chassis
3. Electronic computers
4. Motor vehicle engines
5. Trucks, truck tractors and chassis
6. Crude petroleum
7. Aircraft
8. Precious metals
9. Coal
10. Other metals in ores, concentrates, etc.

1981 CURRENT ACCOUNT - USA

	\$ Millions
Merchandise trade balance	2782
Services transactions:	
Travel	- 734
Interest and dividends	- 5452
Freight and shipping	- 419
Other service transactions	- 5010
Balance on service transactions	-11615
Balance on goods and services	- 8833
Net transfers	135
TOTAL CURRENT ACCOUNT BALANCE	- 8698

PRICES & COSTS (% Change)

	<u>CPI-CDA</u> (% change)			<u>CPI-USA (yr-to-yr)</u> (% change)		
	<u>Total</u>	<u>Food</u>	<u>Non-Food</u>	<u>Total</u>	<u>Food</u>	<u>Non-Food</u>
1977	8.0	8.3	7.9	6.5	6.3	6.5
1978	8.9	15.5	6.4	7.7	10.0	7.2
1979	9.1	13.2	7.9	11.3	10.9	11.4
1980	10.2	10.7	10.0	12.4	10.2	12.9
1981	12.5	11.4	12.8	8.9	4.3	9.9

EMPLOYMENT

	<u>Unemployment Rate CDA</u>	<u>Unemployment Rate USA</u>
1976	7.1	7.7
1977	8.1	7.0
1978	8.4	6.0
1979	7.5	5.8
1980	7.5	7.1
1981	7.6	n/a

CAN DOLLAR IN US CENTS

1977	94.10
1978	87.72
1979	85.38
1980	85.54
1981	83.42

FOREIGN INVESTMENT (Latest Statistics Canada Estimates)

US Direct Investment in Cda	\$38.3 billion (end of 1978 cumulative)
US Portfolio Investment in Cda	\$31.5 billion (end of 1978 cumulative)
Canadian Direct Investment in USA	\$ 8.9 billion (end of 1978 cumulative)
Canadian Portfolio Investment in USA	\$ 4.03 billion (end of 1977 cumulative)

BORDER CROSSINGS (millions)

	<u>Canada to USA</u>	<u>USA to Canada</u>
1977	37.9	31.8
1978	37.3	31.6
1979	34.4	31.2
1980	34.7	38.5
1981	33.6	39.8

POPULATION (millions)

	<u>Canada</u>	<u>USA</u>
1981	24.1	230.5

US GENERAL RELATIONS DIVISION

US DOLLAR IN US DOLLARS

1977	44.75
1978	47.75
1979	49.75
1980	52.25
1981	51.45

WESTERN INVESTMENT (Latest Statistics Canada Figures)

US Direct Investment in Canada (end of 1977)	\$21.3 billion
US Portfolio Investment in Canada (end of 1977)	\$21.3 billion
Canadian Direct Investment in USA (end of 1977)	\$8.9 billion
Canadian Portfolio Investment in USA (end of 1977)	\$4.03 billion

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